



2009 Corporate Responsibility Report

“Bringing Our Best To You”





# For more than 100 years,

corporate responsibility has been at the foundation of Kellogg Company and a key part of our heritage and culture. We are pleased to share this report with you. It discusses our corporate responsibility strategy and reviews our performance in four key areas: marketplace, workplace, environment and community.

## Report Application Levels

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared				✓	Report Externally Assured		
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	GRI Checked			Report Externally Assured	✓	Report Externally Assured		Report Externally Assured



## WELCOME

Welcome to Kellogg Company's 2009 Corporate Responsibility Report.

This report is intended to provide information useful to our stakeholders, including our consumers, employees, customers, investors, business partners, community members, and governmental and nongovernmental organizations.

This is our second corporate responsibility report, covering calendar years 2008 and 2009. Our first report was published in January 2009 and covered calendar year 2007.

The report covers Kellogg Company's wholly and majority-owned operations, and complements other information about Kellogg available on our company Web site ([www.kelloggcompany.com](http://www.kelloggcompany.com)) and our nutrition Web site ([www.kelloggnutrition.com](http://www.kelloggnutrition.com)). Our recent acquisitions in China and Russia are being integrated into our company, and we intend to report on them more fully in the future.

This report uses the Global Reporting Initiative (GRI) G3 Guidelines, which provide a recommended framework and indicators for reporting. We are reporting at a GRI-checked application level of "B." More information on the G3 Guidelines and application levels is available at [www.globalreporting.org](http://www.globalreporting.org). We did not seek third-party assurance of this report but will consider doing so for future reports. The report received extensive internal review by subject matter experts and our Global Leadership Team, composed of our top executives. An Executive Summary of this report is available online at [www.kelloggcompany.com/CR](http://www.kelloggcompany.com/CR) or by emailing [corporateresponsibility@kellogg.com](mailto:corporateresponsibility@kellogg.com).



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“We know that our customers, our consumers and our employees want us to be a successful business while also doing the right thing for the environment and society. That’s what Kellogg stands for.”

*A question and answer interview with David Mackay, President and CEO, and John Bryant, Chief Operating Officer*



John Bryant,  
Chief Operating Officer

David Mackay,  
President and CEO

**Q:** In early 2009, Kellogg published its first corporate responsibility (CR) report. How has CR evolved at Kellogg since then?

*A: David Mackay*

Our company has a robust, century-long tradition of corporate responsibility, dating back to our founder, W.K. Kellogg. Our first corporate responsibility report was a milestone in our continuing journey, but we’ve been actively involved with these issues for years.

*A: John Bryant*

During 2008, we took a more strategic approach to our corporate responsibility priorities. We defined our most material issues, set priorities and began the process of establishing objectives, targets and metrics. Leadership expectations are now clear, and momentum is growing across the organization. We are also educating our employees worldwide about our corporate responsibility approach and continue to engage them in moving it forward.

**Q:** How would you describe Kellogg Company’s approach to CR?

*A: David Mackay*

Our approach can be summed up as delivering sustainable business results while making responsible choices for the environment and for society. This report is a comprehensive accounting of the progress we’ve achieved in addressing our most material issues—and about the challenges that we face.

Our company has a track record of consistently delivering on our promises, and we are committed to continuing to improve our performance. For example, in 2008 we set demanding environmental targets that will have a dual payoff. When we reduce our use of natural resources, and reduce the amount of waste we generate, it is good for the environment and for our business.

**Q:** What kind of reaction did you get to the first report?

*A: David Mackay*

The response from stakeholders was very positive. Publishing the report provided a tool for additional dialogue with stakeholders with a vested interest in the issues with which we are actively involved.

**A: John Bryant**

Our first report had another, equally important, benefit: By aggregating our work in the four pillars of marketplace, workplace, environment and community, our global employee base could see our commitments and the progress we're making. It has helped further instill a culture of sustainability by showing our employees how committed we are to these issues.

**Q: What areas of CR-related progress over the last year stand out for Kellogg?**

**A: David Mackay**

We continued to make progress toward our environmental goals. Since 2005, we've decreased our energy use, greenhouse gas emissions and water use (per metric tonne of food produced), by 5.7, 8.9 and 7.4 percent, respectively. We also have strong facility success stories to tell. Our Zanesville, Ohio, plant, for example, decreased its water use by 24 percent and its electricity use by 21 percent since 2005. One of our warehouse facilities in Canada cut water consumption by 37 percent and natural gas consumption by 30 percent during that time period. And our plant in Manchester, England, recently installed a recirculating water system that will save 400,000 cubic meters of water per year.

We also developed a framework for making decisions about how we package our products, so we can continue to do our part to decrease the impact of packaging on the environment. And,

we've implemented global "green marketing" guidelines, to ensure that we take a consistent approach to how we market our products worldwide.

We're especially proud of our GoGreen Teams—groups of company employees focused on environmental sustainability—in all of the regions in which we operate. These teams are not only helping us achieve our corporate environmental goals, but are also encouraging fellow employees to take what they learn home with them and make changes in their own lives and communities.

**A: John Bryant**

We also made good progress in the area of responsible sourcing. We know that the operations we own account for just a fraction of the environmental and social impacts of our business, so we finalized our Global Supplier Code of Conduct in 2009 to encourage suppliers on sustainability initiatives. We expect our suppliers to comply with our standards and will begin internal audits with some direct suppliers in 2011.

And in the face of a difficult economic climate, we continued to strengthen our long-term community partnerships and strategic philanthropy efforts. In 2009, for example, we donated an entire day's production of cereal in the United States to Feeding America, the nation's largest hunger relief organization. This was an unprecedented donation, as the need is unprecedented as well.

**Q: What CR areas are you finding particularly challenging to address?**

**A: David Mackay**

Not surprisingly, some of the most important CR-related issues cannot be addressed by Kellogg alone; they require discussion and collaboration with others in order to make progress. These issues include sustainable agriculture and the problem of obesity. Finding ways to reduce the sodium content in foods is another challenge that our entire industry continues to address.

And Kellogg and our peer companies are all wrestling with the challenge of communicating nutrition information about our products to the consumers who buy them. We're working collaboratively to better understand what's both effective and acceptable to consumers and stakeholders in terms of nutrition labeling.

**Q: Food safety is on the minds of many consumers after high-profile incidents such as the 2009 recall of many products containing peanut ingredients. What does Kellogg see as the most pressing concern with food safety?**

**A: David Mackay**

Food safety is, and has always been, our number-one priority. In light of the peanut-related recalls, we are advocating for changes to the food safety regulatory system in the United States. Much like the European Union did almost a decade

ago, U.S. stakeholders must prioritize and emphasize the importance of prevention in ensuring food safety.

**Q: What is Kellogg doing to address global challenges like obesity?**

*A: David Mackay*

Obesity—and childhood obesity in particular—is a problem worldwide. The obesity epidemic requires the efforts and attention of a broad range of stakeholders.

We believe in the concept of energy balance—balancing the calories consumed as part of a healthy diet with the calories expended by physical activity. At Kellogg, we have been working to help consumers balance both sides of the equation for some time. In Europe, for example, we have been involved with the European Commission’s Platform for Action on Diet, Physical Activity and Health. Last year in the U.S., we joined forces with others in our industry to create the Healthy Weight Commitment Foundation in an effort to help effect real change. We have long supported programs that encourage physical activity and health. And, we offer consumers a wide array of food choices to meet their personal nutritional needs.

*A: John Bryant*

“Choice” is an important word for us. We have always believed that it’s important to give consumers a range of food options, from wholesome foods to more indulgent treats. We also believe that we can play a role in helping consumers get more healthful benefits from the foods they eat.

That’s why we continue to seek to improve the nutrition profile of our products wherever possible without compromising on great taste or quality, including our initiative to increase the fiber content in many of our products.

**Q: What are consumers looking for when it comes to sustainability?**

*A: John Bryant*

Many consumers want to leave the world in better condition than they found it. There is also a strong link between creating a healthier planet and being a healthier person. Several of the programs we promote at Kellogg incorporate these themes, such as our Frosted Flakes® Field Makeover program and the Gardenburger® Community Gardens program, which are discussed in more detail later in this report.

**Q: What are the business drivers for CR at Kellogg?**

*A: David Mackay*

In the coming years, we know that the pace of change and the scale of global challenges will only accelerate. We must anticipate them and be agile in our response.

We are committed to doing our part to address the critical global challenges of climate change and energy and water conservation. The food business is entirely dependent on the availability of natural resources—including land, energy and clean water. So it is in our interest to use resources

sustainably and join with others to promote sustainability to ensure the continued availability of these vital resources.

We also anticipate that as energy and water supplies become increasingly scarce, prices will rise. We’ve already seen this happen when biofuel production diverted food crops to fuel, increasing competition for and the price of these commodities. We expect to see increasing carbon regulation and costs in all the markets in which we operate. So any reductions we make in energy use now will help to mitigate increases in energy costs down the road.

Our CR focus can also help us strengthen relationships with stakeholders, especially in the communities in which we operate. For example, we recently revised a policy relating to products that are damaged during transit but remain safe to eat. Rather than sending these products to landfills, we are now donating them to food banks.

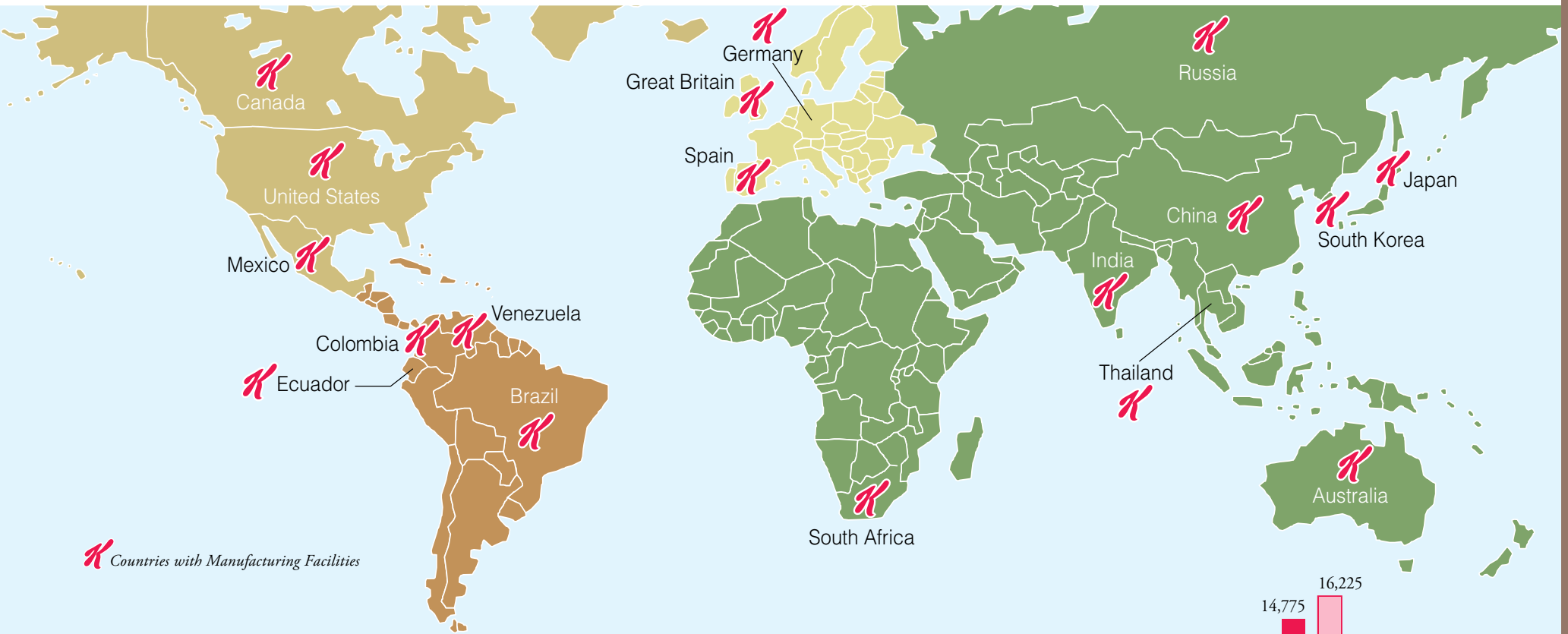
*A: John Bryant*

CR issues aren’t academic—they go to the heart of our business. We know that our customers, our consumers and our employees want us to be a successful business while also doing the right thing for the environment and society. That’s what Kellogg stands for. We will continue to make progress on our CR goals, look ahead to new challenges and engage the whole organization.

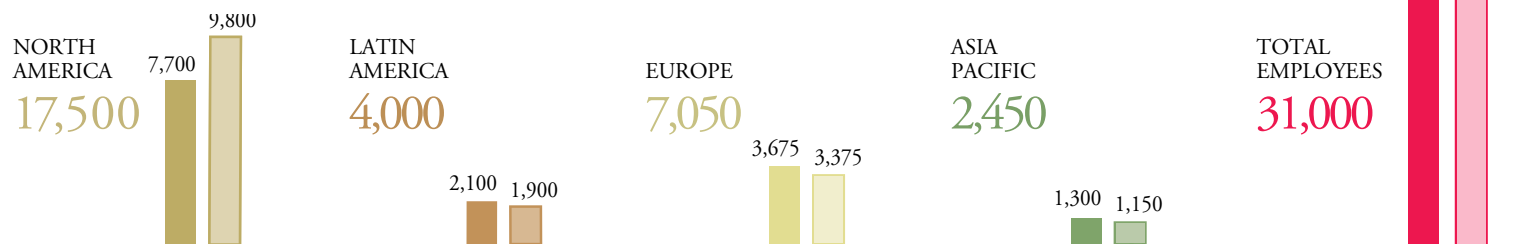
OUR COMPANY

With 2009 sales of nearly \$13 billion, Kellogg Company is the world's leading producer of cereal and a leading producer of convenience foods, including cookies, crackers, toaster pastries, cereal bars, frozen waffles and vegetable-based meat alternatives.

**\$8.5 billion** 2009 North American Sales    **\$1.0 billion** 2009 Latin American Sales    **\$2.4 billion** 2009 European Sales    **\$700 million** 2009 Asia Pacific Sales



APPROXIMATE EMPLOYEE NUMBERS BY REGION



<sup>1</sup>Data in this company profile and throughout the report are in U.S. dollars, unless otherwise noted.



180	Countries where our products are marketed
18	Countries where our products are manufactured
50+	Manufacturing facilities
\$12.6 billion	2009 net sales
\$1.2 billion	2009 net income attributable to Kellogg Company
22 percent	2009 shareholder return
\$3.16	2009 diluted earnings per share
\$1.266 billion	2009 cash flow <sup>2</sup>
\$10.574 billion	2009 operating costs
\$377 million	2009 capital expenditures
\$476 million	2009 income taxes
\$31 million	2009 community investments

To learn more about our company, visit [www.kelloggcompany.com](http://www.kelloggcompany.com) and our various international corporate Web sites.

Kellogg is a publicly traded company headquartered in Battle Creek, Mich. Kellogg products are manufactured in 18 countries and marketed in 180 countries around the world. Kellogg Company operates through four business units: Kellogg North America, Europe, Latin America and Asia Pacific.

There were no significant changes to our operations during 2009.

<sup>2</sup>Kellogg-defined cash flow is net cash provided by operating activities reduced by capital expenditures. The company uses this non-GAAP financial measure to inform management and investors on the amount of cash available for debt repayment, dividend distribution, acquisition opportunities and share repurchases.

## Sample Brands and Products

Information on our brands can be found at [www.kelloggs.com](http://www.kelloggs.com) and at our company's various international Web sites.





## Our Vision and Mission



## Our Business Strategy

At Kellogg, our business model is based on sustainable growth. We maintain an unwavering focus on the long-term health of our business, set realistic targets and follow a simple but successful business strategy:

### 1. GROW CEREAL

We recognize that the success of our cereal business is essential for our company to succeed. Consequently, we make significant investments in research and development and brand building. We hold the leading share position in most countries in which we operate.

### 2. EXPAND SNACKS

We also have a strong snacks business. We have the number-two cookie, cracker and wholesome snack businesses in the U.S. (based on category dollar share).<sup>3</sup> We also have fast-growing wholesome snacks businesses in many other countries around the world. The focus for all of these businesses is innovation and strong brand-building support.

### 3. EXPAND U.S. FROZEN

We also have a successful frozen foods business with category leadership in waffles and meat substitutes.

<sup>3</sup>Information Resources Inc. data



At Kellogg Company, we act with integrity and show respect. We are all accountable. We are passionate about our business, our brands and our food. We have the humility and hunger to learn. We strive for simplicity. We love success.

## Our Values

Kellogg Company's values—our *K Values*<sup>™</sup>—shape our culture, serve as our social contract and guide the way we run our business. We provide additional detail on each of the values to guide our employees on applying them in day-to-day business decisions. They are integrated with several of our business processes, including new employee orientation and annual employee performance evaluations.

## Corporate Responsibility Strategy

In 2008, we developed a comprehensive, global corporate responsibility strategy to help guide our responsible choices in light of rapidly changing environmental, social and economic conditions.

The strategy identified our major corporate responsibility issues based on a materiality analysis.<sup>4</sup> The material issues were grouped into four areas we call “pillars.” These pillars form the structure for this report and the further development and implementation of the strategy (see the figure on p. 11). We have also articulated our ambitions for each of the pillars, as follows:

» *Marketplace:* We will continue to be a trusted provider of safe and high-quality products and contribute to the health and nutrition of our consumers by providing food products that they can integrate as part of a balanced diet and that meet their varying taste requirements. We will continue to advance our efforts as a trusted leader in creating ethical and responsible marketing standards and ensure that our consumers have access to the information necessary to make informed choices.

- » *Workplace:* Kellogg will support an exemplary work force and foster a work environment that values diversity and inclusion and aims to reflect the diverse nature of our consumer demographics. We will remain competitive in our compensation policies, lead our sector in health and safety programs, and expect our suppliers to uphold the same labor standards that we expect of our own operations.
- » *Environment:* Protecting and conserving natural resources is key to our mission of sustainable growth. We will target both reductions in the environmental footprint of our products and cost savings throughout our value chain. We will aim to increase the recycled content of our packaging and use materials that can be recycled. We will increase our understanding of sustainable agriculture practices that align with our business needs for the procurement of our ingredients, ensuring required quality, traceability, nutritional content and continuity of supply.
- » *Community:* Contributing to the communities in which we operate will remain an important element of our corporate responsibility strategy.

<sup>4</sup>Materiality is a familiar concept in financial accounting that has recently been applied to corporate responsibility as a way to focus a company's efforts on those issues that pose the most significant risks and opportunities. The materiality analysis ranked corporate responsibility issues qualitatively along three parameters: level of societal interest and concern, impact on Kellogg (based on financial and reputational impact), and level of control. The issues deemed most material are those that are of high societal concern and impact on Kellogg, and over which the company has some degree of control. For these issues, we seek to understand the risks and opportunities they pose for our company; our role in addressing them; and stakeholders' expectations for our actions.

## Corporate Responsibility Structure



### Corporate Responsibility Governance and Management

We have a corporate responsibility governance structure (illustrated in the figure above) that outlines accountability for driving progress in implementing our strategy. This structure integrates the management of our material issues into our mainstream business processes.

At the Board of Directors level, we have a Social Responsibility Committee composed of four members, all of whom are independent. The Committee, which has been in existence since 1979, met twice in 2009. It oversees all aspects of our corporate responsibility approach. Other committees of the Board address corporate responsibility issues as well. For example, the

Audit Committee reviews various environmental issues. The Board as a whole also addresses key issues discussed in this report, including many relating to health and nutrition.

At the senior executive level, our chief sustainability officer reports directly to the chief executive officer. Two senior managers have been designated as “pillar leads” for each of the four pillars of our corporate responsibility strategy. The pillar leads are responsible for identifying overall objectives, actions needed to achieve the objectives, and goals and key performance indicators for each of the issues, as well as monitoring performance. Pillar leads report on progress in these areas to the heads of their business units as well as to the Global Sustainability Advisory Council.

Kellogg Company’s Emerging Issues Team complements the efforts of the pillar teams. This cross-functional team, which meets regularly with our Global Leadership Team, helps us keep abreast of emerging health, nutrition and food safety issues that have the potential to impact our business. In addition, each Kellogg Company region has a cross-functional Crisis Incident Management Team that assesses and manages incidents with a potential for high impact on our business, such as natural disasters, business interruptions, product recalls and health pandemics. The teams, which are comprised of representatives from Quality, Consumer Affairs, Corporate Communications, Corporate Security, Legal, Safety and other functional areas, report directly to members of the Global Leadership Team.

## Stakeholder Engagement

We regularly engage with a variety of stakeholders on issues ranging from nutrition to climate change, based on our identification of material issues and key initiatives. For example, as described in the Environment section, since 2008 we have been a part of Field to Market: The Keystone Alliance for Sustainable Agriculture, a multi-stakeholder group committed to achieving long-term, continuous improvement in sustainable agriculture production. We have learned a lot from this collaborative effort; along with other initiatives discussed in this report, it has advanced and informed our approach to key issues.

In addition, in the past year we expanded our engagement with stakeholders interested in our corporate responsibility approach and performance. For example, in March 2009, a group of socially responsible investors and stakeholders from nongovernmental organizations (NGOs) provided us with feedback on our inaugural corporate responsibility report. We found the dialogue valuable in understanding these stakeholders' perspectives on our strategy and reporting. We will continue to seek the counsel of stakeholders as we implement our corporate responsibility strategy.

## Progress Since Our Last Report

By the end of 2008, we had completed the identification of objectives, targets and key performance indicators for the Environmental area. The Marketplace and Workplace teams made progress in 2009 toward establishing objectives and indicators by analyzing our company's strengths, weaknesses, opportunities and threats in each of those areas. We discuss our progress in more detail in each of the chapters of this report. Our overall progress on the strategy is summarized in the figure on p. 11.

Also during 2009, we:

- » *Donated an entire day's worth of U.S. cereal production to Feeding America;*
- » *Collaborated with NGOs, retailers and our peer companies in a multi-year effort to help combat the obesity epidemic;*
- » *Advocated for changes to the U.S. domestic food safety system;*
- » *Finalized our Global Supplier Code of Conduct;*
- » *Conducted environmental footprint assessments to better understand carbon dioxide (CO<sub>2</sub>) emissions and water use over the lifecycle of select Kellogg products;*
- » *Engaged with 67 of our largest suppliers on environmental impact reduction issues, including energy use and CO<sub>2</sub> emissions;*
- » *Developed a framework for sustainable packaging to guide our work in this area;*

- » *Undertook several internal initiatives and external partnerships to promote sustainable agriculture, one of which developed an innovative calculator for farmers to use in assessing the environmental impact of their operations;*
- » *Expanded employee "GoGreen Teams" to more locations around the world; and*
- » *Made real-time safety performance data accessible to employees in the U.S.*

## Recognitions

In addition to the awards Kellogg has received in specific issue areas—which are discussed elsewhere in this report—we are pleased to have been recognized in a number of other broader areas.



Kellogg, which has been headquartered in Battle Creek, Mich., since our founding in 1906, was twice voted a "Best of Michigan Business" by the state's largest business magazine. Readers of Corp! magazine were asked to vote for the businesses they considered to be among Michigan's best. Nominations included companies in a variety of categories, including grocers, manufacturers and retailers. Kellogg was recognized in the manufacturing category.



We also were included on *Corporate Responsibility* magazine's 2010 list of the "100 Best Corporate Citizens." In addition, we were rated one of the "Top 20 Most Innovative Companies of 2010" in the food & beverage industry by the Strategos/wRatings Innovation Index.

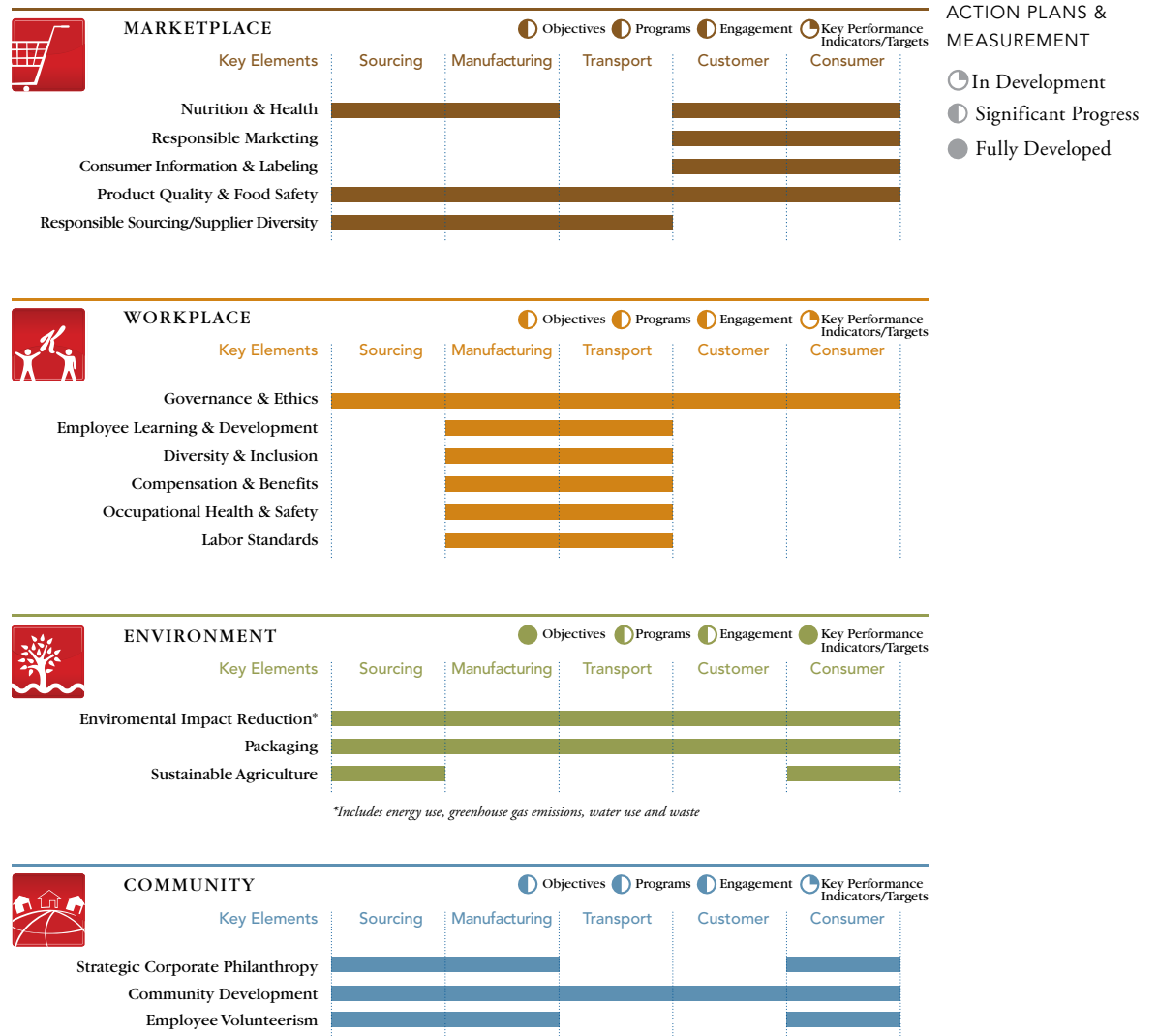
For the third year in a row, David Mackay has been voted the food industry's best CEO by Wall Street analysts and investors. *Institutional Investor* magazine surveyed the world's biggest shareholders to find out who they regard as the best CEOs, for their annual "America's Best CEOs" ranking. The list reflects the opinions of over 900 investment professionals at more than 460 institutions.

*Institutional Investor* magazine also recognized Kellogg in the following areas:

- » *John Bryant was named the food industry's top CFO, for the fifth time.*
- » *Kellogg was named the food industry's most shareholder-friendly company, for the second consecutive year.*

## Corporate Responsibility Strategy Framework & Value Chain

This graphic summarizes our corporate responsibility pillars, key elements of those pillars and where each element occurs in our value chain. It also summarizes the status of our sustainability strategy implementation for each pillar.





Kellogg aims to create enjoyable, wholesome and nutritious foods for people all over the world—foods that meet a range of consumer preferences, tastes and health needs. At the same time, we seek to produce foods that are sourced, manufactured, labeled, marketed and sold safely and responsibly.



## SINCE OUR LAST REPORT

Since publishing our inaugural corporate responsibility report in early 2009, we have continued to make progress in our marketplace pillar. Some of the key initiatives from the last year that are discussed in detail in this Marketplace section include:

- » *Educating consumers on the importance of increasing the amount of fiber in their diets;*
- » *Collaborating with NGOs, retailers and our peer companies in a multi-year effort to help combat the obesity epidemic;*
- » *Advocating for changes to the U.S. domestic food safety system; and*
- » *Finalizing our Global Supplier Code of Conduct.*

## OTHER TOPICS IN THIS SECTION INCLUDE:

- » *Renovating products to enhance nutrition credentials,*
- » *The challenge of reducing sodium in our products,*
- » *Our nutrition education programs,*
- » *Our responsible marketing efforts, including marketing pledges and green marketing claims,*
- » *Consumer information and labeling programs, including health claims,*
- » *Product quality and food safety issues, such as the 2009 peanut-related recalls in the U.S.,*
- » *Responsible sourcing, including supplier diversity efforts,*
- » *Challenges we face, and*
- » *Where we are headed going forward.*





## W.K. Kellogg Institute Expands

Our recently expanded W.K. Kellogg Institute for Food and Nutrition Research in Battle Creek, Mich., now has nearly 400,000 square feet devoted to product development. It includes innovation labs, research facilities, an experimental production area and an improved pilot plant. The expanded facility, which opened in September 2009, allows our researchers and technical experts to work together more effectively in developing new products.





## Progress Establishing Metrics

To help guide our corporate responsibility strategy, we have been working to develop key performance indicators and targets relating to the topics addressed in this Marketplace section. This past year, we undertook a very focused approach to better analyze our strengths, weaknesses, opportunities and threats in the following areas: nutrition; product quality and food safety; consumer information and labeling; and responsible marketing and responsible sourcing.

We are currently formulating internal goals relating to some of these topics. We will track progress against them and expect to share data on our progress externally in the future.

## Nutrition and Health

At Kellogg, we believe our role is to give consumers the information they need to make informed dietary choices for both themselves and their families. We also believe that all foods can have a place in the diet—with balance and moderation.

<sup>1</sup>The U.S. Food and Drug Administration (FDA) defines a “good” source of fiber as containing at least 10 percent of the Daily Value, or 3 grams per serving, while an “excellent” source contains at least 20 percent of the Daily Value, or 5 grams per serving. In Canada, where we first increased the fiber in popular children’s cereals Froot Loops® and Corn Pops®, Health Canada regulates nutrient content claims so that a “source of fiber” provides at least 2 grams per serving, a “high source of fiber” provides at least 4 grams per serving and a “very high source of fiber” provides at least 6 grams per serving.

These concepts are core to our Global Nutrition Policy, which we updated this year to take into account consumer nutrition needs in addition to available science. We are committed to reviewing this policy annually and to providing nutrition information in a transparent and open manner.

W.K. Kellogg founded our company more than 100 years ago with a philosophy that encouraged good health. For example, in 1915 we introduced the world’s first high-fiber breakfast cereal—*Kellogg’s Bran Flakes*®. Today, we remain committed to our founder’s philosophy. The single greatest impact we can have on society is to continue to improve the nutritional profile of our current products and add new products to help our consumers.

### The Importance of Fiber

In 2009, we zeroed in on an important nutrient, announcing plans to add fiber to many of our ready-to-eat cereals in the U.S. and Canada. We increased the fiber content of some of our most popular children’s cereals, including *Froot Loops*® and *Apple Jacks*®, which appeared on U.S. store shelves in August 2009. *Corn Pops*® with fiber launched in the U.S. in January 2010. In Canada, *Froot Loops*® and *Corn Pops*® with fiber first

appeared on store shelves in September 2009. By the end of 2010, we expect that the majority of our ready-to-eat cereals in the U.S. will qualify as “good”—if not “excellent”—sources of fiber.<sup>1</sup> We are actively looking for ways to add more fiber to additional products in many of our global markets.

High-fiber diets have been shown to have benefits, including helping to reduce the risk of heart disease, helping manage blood-sugar levels and keeping the digestive system healthy for nutrient absorption. Yet, studies around the globe consistently show that children and adults do not get enough fiber.

Kellogg has been working to help educate consumers about the importance of fiber and reduce widespread confusion about



## Parents Want More Fiber for Kids

Several recent consumer surveys have found that U.S. parents believe that fiber is essential to their children's health, yet they worry that their children are not getting enough of it in their daily diets.

Also, according to a recent survey Kellogg conducted of 1,300 households with children, half of adults said they feel that fiber is very important for children under the age of 18.

We've listened to our consumers and are working to meet their nutritional needs by increasing the fiber content of many of our ready-to-eat cereals, including cereals for children.

the sources for this nutrient. Our Web sites in many of our markets, including the U.S., Canada, Spain and the United Kingdom, include detailed information about the benefits of fiber for adults and children, along with recommended guidelines and helpful educational tools such as our *Fiber-ped-ia* booklet.

In Europe, fiber has been a key focal point of our European Breakfast Club, which we launched in 2008 to encourage ongoing dialogue between our company and policy makers on nutrition topics for which industry and governments must work together to effect changes. In February 2009 in Brussels, we hosted a seminar on fiber that brought together about 45 health experts, nutritionists, EU officials and consumer group representatives. Fiber was also the theme of

a Kellogg-sponsored breakfast symposia at the British Nutrition Society Summer Meeting, attended by more than 100 delegates, and at the annual Kellogg Nutrition Symposium in Canada, which was attended by more than 400 registered dietitians and nutrition professionals.

In Mexico, Kellogg's Nutrition and Health Institute hosted a similar fiber seminar in Mexico City in September, bringing together more than 1,000 health professionals, nutritionists and students. Also:

- » *In November 2009, we hosted a fiber symposium during the XV Latin American Congress of Nutrition, held by the Society for Latin American Nutrition in Santiago, Chile.*
- » *In India, we hosted two continuing education seminars for doctors and produced two booklets on the importance of fiber for digestive health.*

In addition, we have produced brochures on fiber that explain what fiber is, why it's important and how you can get more of it in your diet. These include: *Fiber-ped-ia* for U.S. and Canadian consumers, a Mexican adaptation of the *Fiber-ped-ia* booklet, and "The New F Word Report" for audiences in the U.K. For more information on other nutrition education programs, visit [www.kelloggnutrition.com](http://www.kelloggnutrition.com).

### Reformulating Products

Renovating a cereal that consumers have known and loved for years is not easy. Even a small change to the flavor or texture can have a decidedly negative impact on a product's consumer acceptance. The addition of fiber has proved to be a particular challenge; historically, products with added fiber often had to compromise on taste. Thanks to recent innovations in food science, fiber can now be added to a host of products without adverse effects.

Since not all fibers are alike, the challenge is identifying which types of fiber will work best with an existing product. Some fibers will change a food's color or texture. Others will impart an astringent flavor. Still others are simply too difficult to process in a manufacturing plant.

We believe Kellogg can have a big—and positive—impact on consumer health by improving the nutritional content of cereals that are already popular with consumers. Since we haven't changed the taste, we know these cereals will continue to be enjoyed. Only now, consumers will enjoy them with added nutritional benefits.

### The Challenge of Sodium

One of the most challenging nutrition issues for Kellogg and other food manufacturers is finding ways to reduce the sodium in our foods while maintaining great taste. Although there are satisfactory substitutes for sugars and fats, there currently is no acceptable salt replacement for use in the development of commercially viable—and palatable—lower-sodium foods. Potassium chloride is the most frequently used salt substitute, but its inherent bitterness limits the development of appetizing products.

The food industry has been searching for decades for an ingredient that tastes and acts like salt, and some promising alternatives are currently under development. Kellogg continues to study emerging salt substitutes and will consider using them if extensive testing proves they are safe and reliable.

Over time, we have silently lowered sodium as we update product formulas. An advantage of gradual reduction is that consumers' tastes adapt to each reduction. In this way, the change is less obvious so consumers accept the lower levels of sodium. In new products, we include

### Cereal: The Complete Story

Experts worldwide agree that breakfast is the most important meal of the day. Though research supports the importance of breakfast, its consumption is decreasing in many regions of the world. In fact, in the U.S., people today are eating breakfast 10 percent less than their counterparts from 1965.<sup>1</sup>

As the world's leading producer of ready-to-eat cereals, Kellogg provides people the world over with nutritious, convenient and affordable products.

Among its many attributes, cereal:

- » Is a typically low-fat, nutrient-dense, low-cholesterol food that encourages breakfast consumption.
- » Delivers the important benefits of grain that make significant contributions to the diet.
  - » Provides a small portion (for example, five to seven percent in the U.S. and U.K.) of the average child's daily intake of sugar, while supporting positive nutrient intake.<sup>2,3</sup>
  - » Contains less than half the sodium of many popular breakfast items worldwide, including bagels, toast and margarine, and croissants<sup>4</sup>
  - » Provides convenient, affordable nutrition—the average cost of a serving of cereal with milk is 50 cents in the U.S. and equivalent amounts elsewhere in the world.

only the minimum amount of sodium needed to meet the taste preferences of consumers.

- » *In Europe, we have introduced products with low sodium levels, such as Nature's Pleasure®. We also have had an active sodium-reduction program in place since 1998, leading to the removal of 38 percent of salt from our products (based on a sales weighted average).*
- » *In the U.S. since the end of 2007, we have introduced 94 products with 10 percent of the*

*Daily Value of sodium or less per serving, and we have lowered the sodium in approximately 60 current products.*

- » *In Latin America, we have an aggressive program in place to reduce the sodium in all current products to equal/less than 200 mg by the end of 2011.*
- » *In Southeast Asia and Greater China, we reduced the sodium in Corn Flakes®, Frosties®, and Cocoa Frosties® by 25 percent at the end of 2008. Japan, Korea and India also have ongoing programs in place for the gradual reduction of sodium. The initial target is less than 10 percent of the Daily Value for sodium per serving.*
- » *An active salt-reduction program in Kellogg Australia has removed some 250 metric tonnes of salt from the food supply since 1997.*
- » *In Canada, sodium reduction in our cereals is an ongoing program, and we have been on this path for some time. As part of this project, we have reduced sodium levels in many of our children's cereals, and we are now focused on reducing levels in our adult brands over time without compromising taste or quality.*

<sup>1</sup>International Food Information Council, *IFIC Review: Breakfast and Health*. 2008;12.

<sup>2</sup>NHANES, 2003-2006.

<sup>3</sup>Williamson CS. *Breakfast cereals – why all the bad press?* BNF Nutr Bulletin. 2010;35:30-33.

<sup>4</sup>U.S. Department of Agriculture, Agricultural Research Service. 2009. USDA National Nutrient Database for Standard Reference, Release 22. Nutrient Data Laboratory Home Page, <http://www.ars.usda.gov/nutrientdata>.

Consumer taste preferences regarding sodium vary widely depending on the region. In India, for example, consumers overwhelmingly rejected cereals in which we lowered the sodium content. But in Southeast Asia and China, consumers preferred the reduced-sodium versions of *Corn Flakes*<sup>®</sup>, *Frosties*<sup>®</sup> and *Cocoa Frosties*<sup>®</sup>.

Historically, the packaged foods industry has found that promoting a sodium reduction on product labels typically leads to a drop in sales because consumers erroneously equate “reduced salt” with “reduced taste.” Yet when we don’t advertise or promote a sodium reduction, most consumers continue to buy the product, never realizing that the sodium content has changed.

To date, we have successfully reduced sodium in some of our most popular cereals worldwide, including: *Corn Flakes*<sup>®</sup>; *Frosted Flakes*<sup>®</sup>; *Rice Krispies*<sup>®</sup>; *Special K*<sup>®</sup>; *Bran Flakes*<sup>®</sup>; and *All-Bran*<sup>®</sup>. Additional sodium reductions have occurred in some brands in specific markets, and we continue to pursue improvements. For example, of Kellogg Canada’s 36 cereals, 75 percent have 230 mg (10 percent of the Daily Value) of sodium

or less per serving. At the beginning of 2009, we embarked on a project to gradually reduce the sodium level of the remaining nine brands to an initial target of less than 10 percent of the Daily Value.

Today, an average bowl of *Kellogg’s*<sup>®</sup> cereal has less sodium than what can be found in many other popular breakfast items. For people watching their sodium intake, the sodium content of our products is clearly listed on the Nutrition Facts panel of each package. Our ready-to-eat cereal products with Guideline Daily Amounts (GDAs) on the front or top of the package also include the milligrams of sodium per serving. For context, it is important to note that breakfast cereals represent a very small percentage of sodium intake (for example, approximately two percent of sodium intake in the U.S. diet<sup>2</sup> and approximately three percent of the sodium intake in the Canadian diet<sup>3</sup>).

Kellogg is engaging with others in our industry, as well as regulatory agencies, consumer advocacy groups and NGOs, to find ways to address growing public concerns over sodium. We have been collaborating with the Grocery Manufacturers

Association, which issued a sodium science report in 2009 to help guide policy makers and frame the debate.

We participated with the International Life Sciences Institute and International Food Information Council to support scientific and consumer research on sodium aimed at understanding the impact of salt on the diet, as well as consumers’ perceptions. In addition, we have participated with NGOs and others in the industry on the National Salt Reduction Initiative spearheaded by the New York City Department of Health and Mental Hygiene. We are also awaiting a new report on sodium from the Institute of Medicine in 2010, which will share research and information about sodium and dietary intake levels.

Our company will continue to aggressively pursue sodium reductions while keeping up to date with new alternatives for sodium and salt substitutes. We remain committed to investing in innovations that will enable us to reduce sodium levels while still meeting our consumers’ expectations for nutrition and great taste.

<sup>2</sup>2003–2004 National Health and Nutrition Examination Survey (NHANES); Kellogg RTEC competitive comparison data, 2007.

<sup>3</sup>Health Reports, Vol. 18, No. 2, May 2007 Statistics Canada, Catalogue 82-003.





#### SUPPORTING EFFORTS TO REDUCE CHILDHOOD OBESITY

*“During the last several years, the food and beverage industry has introduced or reformulated more than 10,000 products to make them healthier. We’ve launched smaller portion sizes, placed calories on the front of products, redesigned packaging and labeling, and much more.”*

David Mackay  
President, Kellogg Company, speaking at the launch of the Healthy Weight Commitment Foundation

### The Obesity Crisis

Obesity, and childhood obesity in particular, are of increasing concern. The World Health Organization predicts that by 2015, approximately 2.3 billion adults will be overweight and more than 700 million will be obese worldwide.

The obesity crisis is impacting the health of our consumers, our employees and our children worldwide. It is a significant public health issue that demands the time, attention and resources of many sectors, including ours. The food industry has been at the front lines of this battle for many years. Kellogg has a variety of activities aligned with the World Health Organization's Global Strategy on Diet, Physical Fitness and Health.

For example, Kellogg is a member of the International Food and Beverage Alliance, a global coalition of food and beverage companies

## More Than 800,000 People Take Part in Day of Change Tour

As part of its commitment to wholesome foods and healthier lifestyles, Kashi Company, our La Jolla, Calif.-based premier natural foods brand, has sponsored an annual, multi-city campaign designed to share small steps people can take to make positive changes in their lives. The "Day of Change" tour began in 2006 and includes free yoga classes, product tastings, cooking demonstrations and other nutrition-related events. In 2009, the tour drew about 820,000 people during stops at more than 20 cities across the U.S.

committed to improving diets and promoting healthy lifestyles. Member companies have pledged to reformulate and develop new products that support improved diets; provide easily understandable nutrition information to

consumers; extend responsible advertising and marketing initiatives globally; raise awareness on balanced diets and increased physical activity; and support public-private partnerships that advance World Health Organization goals.

### Healthy Weight Commitment Foundation

In Europe, food companies (including Kellogg) have been collaborating since 2005 to combat obesity through the European Commission's Platform for Action on Diet, Physical Activity and Health, which brings together key stakeholders to make concrete contributions to the pursuit of healthy nutrition, physical activity and the fight against obesity. In the U.S.—until recently—most food companies primarily undertook individual initiatives to combat obesity. But clearly, a more unified approach is needed to help address the problem to make it easier for people to make healthier choices. And, we need to educate children and adults about the







concept of “energy balance”—calories in/calories out.

Kellogg is proud to have joined with more than 58 peer companies, major food retailers and NGOs in the U.S.

to present a comprehensive and coordinated response to the obesity epidemic. This new initiative, called the Healthy Weight Commitment Foundation, or HWCF, launched in the fall of 2009 with a pledge of \$20 million from the group’s members. Our collective goal is to help reverse the trend of obesity in the U.S. by 2015 by encouraging people to balance a healthy diet with physical activity in three critical areas:

» *Marketplace.* Renovating and innovating products and providing information to help consumers manage their intake of calories. The Robert Wood Johnson Foundation will support

*an independent, objective evaluation of the marketplace initiative. Results from that evaluation will be publicly reported.*

» *Workplace.* Offering nutrition and fitness programs to help food company employees achieve a healthy weight. The impact of the workplace efforts will be evaluated by the National Business Group on Health. Best practices will be shared with employers so they may be replicated.

» *Schools.* Expanding the successful Healthy Schools Partnership, a school-based nutrition education program developed through the American Dietetic Association Foundation, the American Council for Fitness and Nutrition, and PE4life. The Healthy Schools Partnership is being evaluated by the University of California at Berkeley, Center for Weight and Health.

The performance assessments of these initiatives will be designed so that we can continue learning and improving. We’ll know what’s working and what’s not, and we’ll be able to make adjustments as needed to help ensure that our efforts have the greatest impact.

At Kellogg, we are determined to continue being part of the solution, so much so that our president and CEO, David Mackay, was named chairman of the HWCF. For more information, visit [www.healthyweightcommit.org](http://www.healthyweightcommit.org). We also support a variety of programs that promote active lifestyles, such as swimming programs in the U.K. More information on these programs may be found in the Community section.



### Worldwide Industry Engagement

With so many issues facing our industry—from obesity to food safety to responsible sourcing—collaboration is essential. Kellogg participates in important food industry forums and nutrition initiatives around the world, many of which are working to inform consumers about better nutrition and good health. These organizations include:

- » *Consumer Goods Forum*
- » *International Food and Beverage Alliance*
- » *European Commission's Platform for Action on Diet, Physical Activity and Health*
- » *Grocery Manufacturers Association*
- » *American Society for Nutrition*
- » *International Life Sciences Institute*
- » *American Dietetic Association*
- » *International Food Information Council Foundation*
- » *Sustainable Packaging Coalition*
- » *Global Packaging Project (sponsored by the Consumer Goods Forum)*
- » *European Confederation of the Food and Drink Industries*
- » *Consumer Goods Council of South Africa*
- » *Association for Dietetics in South Africa*
- » *Africabio*
- » *Dietitians Association of Australia*
- » *Australian Food and Grocery Council*
- » *Asian Food Information Centre*
- » *Korean Nutrition Society*
- » *Japan Dietetic Association*
- » *Children's Nutrition Education Forum Japan*
- » *Nutrition Society of India*
- » *Indian Dietetic Association*
- » *Protein Foods and Nutrition Development Association of India*
- » *Food and Consumer Products of Canada*
- » *Dietitians of Canada*
- » *Canadian Association of Cardiac Rehabilitation*
- » *Latin America Nutrition Society*
- » *Alianza por una Vida Saludable (México Healthy Lifestyle Alliance)*
- » *Chilealimentos*
- » *Asociación Mexicana de Nutriólogos (Mexican Nutritionists Association)*
- » *British Dietetic Association*
- » *British Nutrition Foundation*



## Nutrition Education

As a global food company, we believe we can play an important role as nutrition educators—particularly for children, their parents and other caregivers—and we have a long history of proactively encouraging health and fitness.

Over the years, Kellogg has developed a number of school-based nutrition programs in the U.S. and around the world. Most recently, we created L.A.U.N.C.H.—Learning and Understanding Nutrition Choices & Health, based on our Mission Nutrition Program in Canada (see below)—to encourage healthy eating and physical activity. Developed by registered dietitians and based on the USDA’s food pyramid, the program features entertaining ways to foster healthy habits for students in kindergarten through eighth grade.

In India, we have been working with schoolchildren since 1996 to teach the importance of proper nutrition. To date, more than 3 million children have participated in the program, which includes nutrition videos and interactive games. In early 2009, we commissioned a survey on the breakfast habits of Indians that found, among other things, that nearly one-fourth of children claimed to skip breakfast more than four times a week, and nearly half of 8- to 12-year-olds leave their homes in the morning having had just a glass of milk for breakfast.



### Institute of Nutrition and Health

In 2006, we launched Kellogg’s Institute of Nutrition and Health in Querétaro, Mexico to promote healthy lifestyles in Mexico. The Institute focuses on three audiences—health professionals, consumers and employees—and works to promote overall good health and better nutrition.

Over the last year, the Institute has awarded grants for nutrition research; hosted a day-long fiber symposium; published a magazine on the importance of fiber; and enhanced our website with nutrition-related tools for kids and parents, among other activities. Every week, an Institute nutritionist participates in a call-in show on a popular national radio program targeted to mothers. The show discusses nutrition, obesity, product labeling and other issues. For more information on these and other nutrition initiatives, visit [www.inskelloggs.com](http://www.inskelloggs.com).

Other global initiatives include the following:

- » *In Canada, our Mission Nutrition Program encourages parents and teachers to promote active and healthy lifestyles through a series of curriculum-based resources for students in kindergarten to eighth grade. For more information, visit the Mission Nutrition Web site at [www.missionnutrition.ca](http://www.missionnutrition.ca).*
- » *Kellogg Spain launched a school-based program called “Descubridoes del Desayuno” (Discovering Breakfast) in the Valencia region to teach children about a balanced diet and*

*the importance of a healthy breakfast. Approximately 32,500 children went through the program in its first two years, and we plan to expand it in 2010.*

- » *For more than 20 years, Kellogg France has produced nutrition education materials for teachers. In 2008, we developed a new set that was made available to some 60,000 children in primary and secondary schools.*

We also work with leading nutritionists to develop healthy recipes and information for consumers and health care professionals about the health benefits of breakfast and other nutritional issues. For example, our “Snackivate” program helps parents find ways to turn snack time into an opportunity for good nutrition. And our “Kellogg Know Network,” designed for health care professionals in the U.S., offers credible science and research information relating to healthy eating.

Clearly, more needs to be done to communicate the importance of a healthy breakfast for learning and energy. For that reason, nutritional outreach on the benefits of breakfast continues to be a key initiative in many of our markets. For example, we teamed up with the Dietitians Association of Australia to launch National Breakfast Week last August to raise awareness of the importance of breakfast. For more on our breakfast-related activities, please see the Community section.



SAVE  
TREES



SAVE  
ENERGY



REDUCE  
CO<sub>2</sub> GASES



REDUCE  
WASTE

### Green Marketing Claims

We recently developed guidelines for “green marketing” claims and iconography in an effort to create consistency and clarity, and to ensure that our product communications are not misleading. For example, to reduce consumer confusion, our packaging reduction claims may be stated only as a percentage of the total weight reduced.

For these claims, we also introduced four symbols, pictured above.

We created a cross-functional team to review our green marketing processes and existing claims to develop a system that would work worldwide. Packaging reduction claims are meant to be just a starting point, and we will continue to develop ways to improve the process and guide our future green marketing initiatives.

### Responsible Marketing

Kellogg has been an industry leader in responsible marketing practices. We are committed to the truthful and transparent marketing of our brands, so consumers can make informed choices.

In 2007, we developed nutrition standards, called the Kellogg Global Nutrient Criteria (KGNC), to guide which products will be marketed to children. The standards, which were

based on a broad review of scientific reports, set upper per-serving thresholds on calories, fats, sodium and sugar. Since that time, we have reformulated over 115 products, reducing sugar, salt and fats so they would meet that criteria. As of Jan. 1, 2009, we stopped advertising to children under age 12 those products that did not meet the KGNC.

### Marketing Pledges

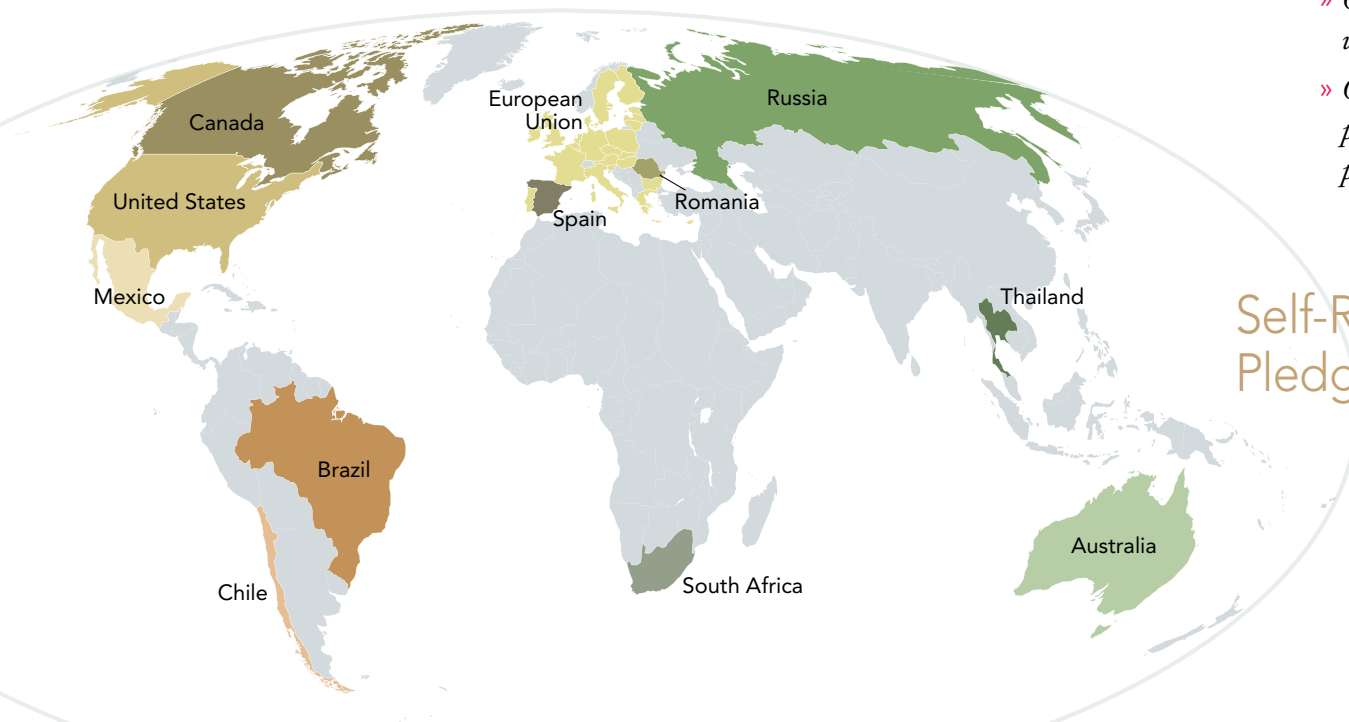
Kellogg is an active participant in expanding and improving advertising self-regulatory programs around the world. These collaborative programs are subject to monitoring and enforcement, with publicly available and fully transparent progress reports. We are members of programs in the U.S., Australia, Brazil, Canada, Chile, the European Union, Mexico, Romania, Russia, South Africa, Spain and Thailand. We intend to sign on to similar self-regulatory programs that are currently under discussion or in development in India, Peru and the Philippines.

## Awards and Recognitions

- » Kellogg's® is the favorite brand for breakfast cereal among *Reader's Digest* members in the European Union, according to recent polls. The annual *Reader's Digest* Trusted Brand Survey, released in early 2009, asked the publisher's members from 16 European nations to vote for their favorite brands in food, travel and other categories.
- » In 2009, Kellogg Mexico was named one of the top 10 leading companies by HSM & Hay Group, which evaluates companies for their corporate values and commitments to social responsibility, based on the opinions of 1,200 company executives.
- » In 2009 in Spain, we received an award for the most responsible children's advertising campaign for ChocoKrispies® from Festival Infantil El Chupete.

One of the industry's key self-regulatory pledge programs is the Children's Food and Beverage Advertising Initiative (CFBAI), of which Kellogg is a charter member. In October 2009, the U.S. Council of Better Business Bureaus issued a report on the progress of the initiative, noting a significant shift in children's advertising toward the promotion of healthier dietary choices and lifestyles among the 16 major food and beverage companies involved in the pledge. The report recognized Kellogg for:

- » *Reformulating many products to meet our KGNC, which had been aligned with the CFBAI;*
- » *Our online "Get Your Move On" Web site, which encourages children to be active; and*
- » *Our longstanding policy of not advertising products in elementary schools or engaging in product placement in child-directed media.*



## Self-Regulatory Marketing Pledges Around the World



## Consumer Information and Labeling

Kellogg empowers consumers to make good nutritional choices by providing comprehensive nutrition information on our product packages, as well as on our Web sites. We believe it is important to provide clear and understandable explanations of our products and the ingredients that go into them.

Guideline Daily Amounts, or GDAs, which Kellogg first began rolling out in the U.K. in 2005, include calories, total fat, sodium and total grams of sugar per serving, and where the food might fit in a consumer's daily 2,000-calorie diet. The system also identifies the nutrients consumers typically need more of, such as fiber, calcium, potassium and other important vitamins and minerals. GDA labels appear on our products in the U.S., Europe, Australia, New Zealand, Canada, South Korea, Mexico and the rest of Latin America.

## Smart Choices

In the summer of 2009, Kellogg and some of our peer companies began using the "Smart Choices" symbol on many of our products in the U.S. Based on consensus science, the program was a response to calls for a more uniform, voluntary, front-of-package labeling program. After its launch, however, critics raised questions and the program announced a hiatus subsequent to the U.S. Food and Drug Administration (FDA) announcement of its intention to develop uniform front-of-pack and shelf labeling criteria.



We are now phasing out the Smart Choices symbol, and we look forward to collaborating with the FDA to develop an industrywide program that will encourage healthy choices.

## Health Claims

In Europe, there has been growing debate over health claims that food companies include on their packages. The European Food Safety Authority is currently evaluating more than 4,000 claims and plans to publish opinions on each of them in late 2010 or early 2011. Kellogg has been monitoring the situation with particular interest in the areas that are critical to our brands. Similar health claims regulations are under discussion in other global markets.

At Kellogg, we only make a health claim when we can back it up with robust scientific support. For example, there is established, scientific evidence showing that the oat beta glucan found in our *Optivita*<sup>®</sup> cereal (which is available in the U.K., Spain and Italy) can help lower cholesterol.

For more on these and other related issues, please see a new section of our U.K. Web site, "The Truth About Our Food," at [www.kelloggs.co.uk/health/the-truth-about-our-food](http://www.kelloggs.co.uk/health/the-truth-about-our-food).



## Exploring a “Natural” Definition

As consumers grow increasingly interested in healthful foods, more and more food companies are marketing their products as “natural.” Yet this term lacks clear definition from the U.S. Food and Drug Administration, leaving consumers understandably confused about what it actually means.

Kashi, a natural food company that operates as a wholly owned subsidiary of Kellogg Company, has been working with external leaders and advocacy groups within the natural products industry to create a “natural” standard for food.

## Product Quality and Food Safety

The quality and safety of our foods is our highest priority. Kellogg has extensive systems and processes in place to ensure that our products meet our strict food safety standards. Our comprehensive food safety platform includes robust employee training programs, external and internal supplier audits, and ingredient safety and allergy control methods, among other components.

But managing a global supply chain of more than 1,500 products can be a challenge at times, as evidenced most recently by the 2009 recall of many products containing peanut ingredients—the largest recall in the FDA’s history. The episode illustrated serious gaps in the U.S. food safety system that must be addressed to better protect consumers. Kellogg was one of many food companies adversely impacted by the recall of various peanut ingredients from the supplier Peanut Corporation of America (PCA).

In January 2009, we took proactive action and, out of an abundance of caution, recalled our Austin® and Keebler® peanut butter sandwich

crackers and select other products after learning about tainted peanut ingredient lots produced by PCA. In total, more than 7 million cases of Kellogg products were recalled, at a cost of approximately \$65 million to \$70 million.

In the wake of this unfortunate situation, we took several immediate steps, including establishing new cross-functional Kellogg audit teams to audit suppliers of high-risk ingredients. We also stepped up the monitoring, testing and visibility of our raw material ingredients as part of a broader effort to reduce the number of strategic suppliers. Our aim is to work with suppliers of top reputations, who uphold the same high





quality standards we do. We now require our suppliers to evaluate their own supply chains and conduct environmental testing and monitoring in their plants. We also assigned specific employees in both our quality and our food safety departments to work collaboratively with suppliers in an effort to further enhance safety processes. Lastly, we are strengthening internal training and education across our supply chain.

In light of the U.S. peanut product recalls and other safety concerns affecting the global food

industry, Kellogg is taking additional precautionary measures to ensure the safety of our foods. We recently began implementing a new risk-based sourcing strategy that evaluates our 3,500-plus raw material ingredients against three important criteria: food safety, supplier quality and business continuity. Our immediate focus is on the highest-risk ingredients, such as nuts and seeds, flour, chocolate, dairy products, additives, freeze-dried fruit and vegetables.

In addition, we have established a Food Safety Advisory Council comprised of external experts in toxicology, food science, regulatory, microbiology, legal and supply chain. The council is charged with supporting food safety intelligence and risk assessments, while providing strategic thinking on future food safety initiatives.

### Food Safety Advocacy

Kellogg has long believed that prevention is the key to food safety, so that potential sources of contamination are identified and properly addressed before they become actual food safety problems. We believe that food manufacturers, retailers and consumers in the U.S. could benefit from comprehensive and certified food safety standards for evaluating food manufacturing facilities like those in the European Union, where food science and risk assessment were consolidated by industry, academia and government in 2002 into a single authority—the European Food Safety Authority—following a series of food safety crises.

We have been strongly advocating for changes to the U.S. domestic food safety system including:

» *The formation of a single food safety authority within the U.S. Department of Health and Human Services to give accountability to one agency leader for science, surveillance, research and inspection;*

- » *A requirement that every food company conduct a risk analysis and document their prevention controls, verification systems and testing results in a food safety plan subject to regular FDA review;*
- » *Annual inspections by the FDA of facilities producing high-risk products;*
- » *Universal food safety standards for evaluating food manufacturing facilities;*
- » *Mandatory recall authority for the FDA; and*
- » *The establishment of an International Food Protection Training Institute to train government and industry inspectors who are responsible for food protection.*

### Auditing Standards

We support the efforts of manufacturers and retailers who are adopting Global Food Safety Initiative standards or GFSI. We look forward to working collaboratively across the industry toward a single standard against which we can train, certify and accredit third-party auditors and auditing firms to ensure consistency.

Until this is a reality, Kellogg voluntarily participates in the GFSI, which was launched in 2000 to improve food-safety management systems throughout the supply chain. This external audit provides a basis for consistency for the industry. In addition to the third-party audits that are performed as part of the GFSI, we have our own internal audit system to conduct in-depth reviews of our facilities around the world. Our internal audits, which typically take about five to seven days per plant, cover issues such as quality, food safety, hygiene and sanitary design, environmental monitoring and leadership commitment, among others.



Kellogg had been updating and expanding our food safety audit program even prior to the U.S. peanut product recalls. We have also been working to strengthen the quality requirements of the third-party contract manufacturers that help produce our products. Kellogg has required that all of our co-manufacturing facilities in North America (which number from 50 to 60 at any one time) comply with GFSI auditing standards by the end of 2009, and we are also conducting Kellogg quality and food safety audits. These requirements are in place or in the process of being implemented across our global supply base as well. Beginning in 2010, Kellogg will terminate the contracts of those co-manufacturers that do not comply with our strict food safety requirements.

#### HACCP Training

Kellogg Company's food safety monitoring program is based, in part, on the Hazard Analysis and Critical Control Point (HACCP) program, a comprehensive system designed to prevent contamination in food. In the U.S., Kellogg has provided HACCP system training to 100 percent of our employees in product development, operations and supply chain management—that is, those employees who work with our food on a daily basis. Kellogg is in the process of developing an even more comprehensive HACCP training program to be initiated in 2010.

#### Country of Origin

For ingredients sourced from high-risk countries, Kellogg has been requiring incremental external audits, equivalent to the Global Food Safety Initiative, for food safety, allergen control and good manufacturing practices. We will also require a diligent review of our ingredient suppliers' supply chains, with full traceability of their

ingredients through to our receipt of the ingredients at our manufacturing plants.

For example, in India, 90 percent of the raw materials for our foods and packaging are sourced locally. Kellogg India maintains country-of-origin records for all imported materials.

If any ingredient supplier fails to meet our requirements, we will find alternative sources or reformulate to remove the ingredient from our products. As previously discussed, we conduct third-party audits of all of our suppliers—regardless of country of origin. When a problem surfaces in a particular country or region, we arrange additional third-party audits of our suppliers as an added precautionary measure.

Kellogg has been transferring some of our employees to work in China and other high-risk regions so they can meet directly with suppliers and outline our expectations to them.





### Ingredient Database

As part of our quality monitoring systems, Kellogg maintains an ingredient hazard analysis database that includes information on all of the 3,500-plus raw materials used for Kellogg products. The database allows us to identify regions around the world where we can source products that meet our strict safety codes. When Europe experienced a rice shortage in 2008, our database enabled us to quickly procure rice from other regions, without interrupting our business or compromising product safety.

### Industry Participation

Kellogg is a member of or active participant in a number of key industry groups that focus on food quality and safety, including:

- » *Association of Food and Drug Officials*
- » *Food Allergy Advisory Council*
- » *Grocery Manufacturers Association*
- » *International Association for Food Protection*
- » *Joint Institute for Food Safety and Applied Nutrition*
- » *Society of Consumer Affairs Professionals*
- » *Food Allergy and Anaphylaxis Network*

- » *International Life Sciences Institute*
- » *Corporate Executive Board—Quality Executive*
- » *Consumer Goods Council of South Africa*
- » *Allergen Bureau (Australia)*
- » *Anaphylaxis Australia*
- » *Australian Institute of Food Science and Technology*
- » *Program in Food Safety, Nutrition and Regulatory Affairs*
- » *Food and Consumer Products Canada*

## Responsible Sourcing

To be successful in the marketplace, we must earn consumers' trust by meeting their needs for products that are sourced responsibly. At Kellogg, we are committed to ensuring an ethical supply chain that is capable of providing continuity of supply in our ingredients, in our packaging materials and at our manufacturing plants, while minimizing the total environmental footprint of our products.

Our Responsible Sourcing Framework focuses on four key areas: business ethics, labor standards, employee safety and health, and the environment. A key element of this framework is our Global Supplier Code of Conduct, which we finalized in 2009, to ensure that the suppliers with which we do business embrace and demonstrate high standards of ethical business behavior. The code covers issues such as legal compliance, fair employment practices, anti-corruption efforts and food safety standards.

We expect all of our suppliers to comply with the standards of this code, and for their suppliers and subcontractors to act in accordance with the guidelines as well. Failure to comply with any of the standards requires the supplier to take immediate action to correct the deficiency, and may result in the termination of the contract between Kellogg and the supplier.

In 2009, we began further distributing our Global Supplier Code of Conduct to all of our direct suppliers for raw materials and packaging, as well as to our co-manufacturing facilities. Through this process, we continue engaging with our suppliers to ensure they are fully informed and abide by these standards.

Kellogg and other food companies are exploring ways to perform shared social accountability audits among our common suppliers so as not to duplicate efforts or reduce efficiency. As an industry, the stronger our suppliers are, the safer our foods will be. Kellogg recently became a member of AIM-PROGRESS, a forum of about two dozen consumer goods companies working to promote collaboration to enhance responsible sourcing practices. The global initiative is supported by AIM (the European Brands Association) and the Grocery Manufacturers Association in the U.S.

### WE FOCUS ON FOUR KEY AREAS IN OUR RESPONSIBLE SOURCING:

business ethics, labor standards,  
employee safety and health, and  
the environment.

#### Supplier Diversity

Kellogg has had a supplier diversity program in the U.S. for more than 20 years. This program aims to strengthen our communities and provide better opportunities for companies owned by members of minority groups and women. We believe it is important to buy from people who buy from us. We recognize that our consumer base is changing, and it is critical for us to be aligned with those who purchase our products.

We continue to make strong progress with our program. In 2009, we spent more than \$400 million on goods and services from minority- and women-owned businesses, surpassing our goal for the year of \$390.5 million. Among first-tier suppliers, we spent \$321 million, or 6.9 percent of our total spend.

Our program includes suppliers from more than 400 companies owned by minorities, women and disabled veterans in the U.S. We have been steadily increasing the number of diverse suppliers with whom we spend \$1 million a year or more. In 2002, we had 21 suppliers in our Million Dollar Club; in 2009, we had 44. Also in 2009, we had nine companies in our Platinum Club, which recognizes businesses with which we spend \$10 million or more, and two companies in our Diamond Club—those with whom we spent \$25 million or more.

We have also been working with our suppliers to promote greater diversity within their own supply chains. In our headquarters state, for example, we have been working with the Michigan Minority Supplier Development Council to provide training to companies that are looking to improve their representation of minority-owned suppliers. This program is good for the community and also increases the opportunities to improve our second-tier diversity spending.

**Awards**

In 2009, Kellogg received three significant recognitions for our supplier diversity efforts:

- » *The Women’s Business Enterprise Council Great Lakes—Corporation of the Year*
- » *The Native American Business Alliance—Advocate of the Year*
- » *Michigan Minority Supplier Development Council—Corporation of the Year, Consumer Products*

**Supplier Sustainability Award**

To encourage sustainability among our suppliers, we recently launched a sustainability award for the supplier whose environmental stewardship programs have helped us improve our own performance through our external supply chain.

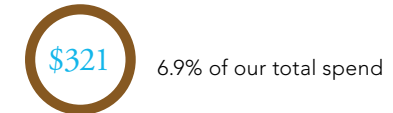
We look to reward those suppliers with leading environmental stewardship programs and best practices that help us to lessen our environmental impact, increase the sustainability of our packaging, or improve sustainable sourcing of our materials. Suppliers must submit a summary of their efforts to Kellogg to be considered for the Environmental Stewardship Award.

**Supplier Diversity**

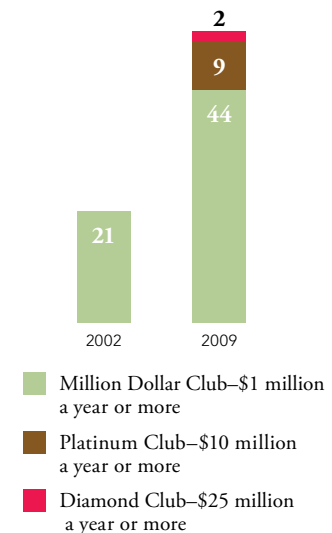
2009 GOODS AND SERVICES FROM MINORITY- AND WOMEN-OWNED BUSINESSES (dollars in millions)



AMONG FIRST-TIER SUPPLIERS



DIVERSE SUPPLIERS WITH WHOM WE SPEND \$1 MILLION A YEAR OR MORE







## Challenges

The U.S. peanut products recall of 2009 ranks among the biggest challenges Kellogg has faced in the last decade. While we addressed the situation swiftly, we—and the entire food industry—face an ongoing challenge of ensuring a safe and secure supply chain. As we move forward, we will continue to work toward improving systems, looking for ways to enhance our own internal food safety programs as well as those of the food industry as a whole.

In Europe, meanwhile, we are paying close attention to the growing debate over health claims made on products, which could potentially impact our business.

On the nutrition front, we are working toward finding ways to improve our products' nutrition profiles. One particularly difficult area for us is sodium; the food industry has worked for years—unsuccessfully—to come up with a satisfactory alternative to salt. The challenge for us is finding ways to maintain great taste, while improving the nutritional content of our products.

We also continue to explore ways that we, and our industry, can help slow the obesity epidemic. We are always searching for ways to enhance the nutritional profile of our foods and to educate consumers about achieving energy balance, or “calories in/calories out,” and we look forward to our work with the Healthy Weight Commitment Foundation.



## Where We Are Going

Nutrition is an integral and valued part of the Kellogg culture. As part of our ongoing journey to strengthen the nutrition credentials of Kellogg products, we will continue to reformulate our foods to reflect the evolving health needs of consumers. Looking ahead, we will also be evaluating our products to comply with new regulatory requirements that are under consideration in the U.S., Europe and other markets.

We intend to continue our leadership in responsible marketing aligned with our ethics and are also committed to ensuring that all Kellogg employees are engaged in food safety, whether they work in our plants, our offices or our sales force.

Kellogg will continue to formulate internal goals in areas of nutrition, product quality and safety, consumer information and labeling, and responsible marketing. We want to ensure we offer consumers the best products—including better-for-you and more indulgent choices. Through our foods, we want to continue to bring health, nutrition and enjoyment to people all over the world.





At Kellogg, our workplace initiatives are guided by our *K Values*<sup>™</sup>, including the value that urges us to “act with integrity and show respect.” We do this by adhering to high ethical standards in our business dealings, and by investing in our people and nurturing their development as leaders. We also act with integrity and show respect by maintaining a diverse and inclusive work force, and by continually working to promote the safety, health and wellness of our employees.

A century ago, company founder W.K. Kellogg said, “I will invest my money in people.” We know that our employees are still our most important resource, and that our success now and in the future depends on each of them.



## SINCE OUR LAST REPORT

Since our first corporate responsibility report was published in early 2009, we have undertaken several key workplace-related initiatives. Specifically, we have:

- » *Launched an initiative to help us better track human resource information globally;*
- » *Developed two new training and development curricula, the W.K. Kellogg Leadership Academy for our most senior executives and “The Best to You” classes for individuals in the pipeline for those senior roles;*
- » *Begun assessing employees’ diversity and inclusion behaviors in the yearly performance review process;*
- » *Made real-time safety performance data accessible to employees in the U.S.;*
- » *Developed a Global Influenza Preparedness Plan; and*
- » *Strengthened incentives for participating in our Feeling Gr-r-reat™ health and wellness program.*

## OTHER TOPICS IN THIS SECTION INCLUDE:

- » *Progress establishing metrics,*
- » *Governance and ethics,*
- » *Talent management,*
- » *Diversity and inclusion,*
- » *Employee safety,*
- » *Employee health and wellness<sup>1</sup>,*
- » *Challenges we face, and*
- » *Where we are headed going forward.*

<sup>1</sup>In our inaugural corporate responsibility report, we shared some of the results of our Culture Survey of employees. As noted then, that survey is not conducted annually, so new data are not available for this report. The next Culture Survey will be conducted in 2010.





## Progress Establishing Metrics

We have begun to identify and define key performance indicators for our workplace issues, which will help us to better gauge our progress. This work is ongoing, and we hope to have more specifics to discuss in our next report. Already, we are measuring and reporting on our safety performance, participation in companywide ethics training, diversity trends and wellness program participation.

Our new human resource initiative, myHR, which involves multiple technology solutions, will help us to better track workplace-related measures such as employee demographics and turnover rates. It will also help to ensure that we uniformly apply our workplace programs (such as Talent Management) throughout all Kellogg regions. This initiative was launched in the U.S., Canada and Latin America in late 2009. Implementation planning for our Europe and Asia Pacific regions is underway.

## Governance and Ethics

Kellogg Company's culture encourages ethical conduct and a commitment to compliance with all applicable laws, company policies and our *K Values*<sup>™</sup>. The most important factor in creating and reinforcing such a culture is the commitment of corporate leadership, particularly at the Board and senior management levels.

Our company is governed by a 12-member Board of Directors. Ten of the Board members are independent of the company, as defined by the New York Stock Exchange. The Board operates through six committees—Audit, Compensation, Executive, Consumer Marketing, Nominating and Governance, and Social Responsibility—and according to a set of Corporate Governance Guidelines. All of the members of Board committees are independent.

Executive compensation is reviewed by the four-member Compensation Committee. Working with an independent compensation consultant, the committee looks at salaries compared with our peer companies, executive performance and the company's financial results. All components of compensation (for all non-production employees) are targeted at the 50th percentile of our peer company group.

At the executive level, our head of global human resources oversees most of the workplace issues addressed in this section. Our vice president of environmental stewardship, health and safety has oversight responsibility for occupational health and safety. In addition, our senior vice president-general counsel oversees ethics issues.

A Global Code of Ethics guides the business practices of all Kellogg employees worldwide. Substantially all employees with access to company computers complete Kellogg Company's annual Compliance and Ethics Training, which is conducted in 13 languages and has been in place since 2000. During 2009, 16,931 employees (or about 55 percent of our global work force) received the training, totaling more than 30,000 hours. The 2009 training focused on the EU's competition/antitrust law, data safeguarding, intellectual property and, for new employees, our Code of Conduct. We have both a hotline, called the Ethics Alert Line, and a Web-based reporting tool for our employees, so they can raise questions or concerns anonymously.

Our Corporate Governance Guidelines, Global Code of Ethics and additional information about our governance systems can be found online at [www.kelloggcompany.com](http://www.kelloggcompany.com).

## Labor Standards

Approximately 32 percent of Kellogg Company's global work force is represented by unions. Kellogg works to maintain a positive and professional working relationship with all of our employees at every location worldwide and, where applicable, with their bargaining representatives. During 2009, Kellogg negotiated more than 20 collective bargaining agreements covering more than 3,400 employees in the U.S. and Canada.

Kellogg Company's corporate Labor Relations function directly supports employee and union relationships in North America. In our other regions, Labor Relations collaborates with its international counterparts to share best practices.

Kellogg is committed to following the spirit and letter of the law with respect to labor standards all around the world. We maintain high workplace standards at all of our manufacturing and distribution locations, including but not limited to: a safe work environment, adherence to compensation and employment laws and regulations, access to freedom of association, and freedom from child labor or forced labor. Kellogg conducts regular audits at its manufacturing and distribution locations to ensure adherence to regulatory requirements and Kellogg policies in

such areas as compliance with payroll requirements, grievance processing, hiring practices, benefits administration and other employment practices. External audits are occasionally conducted in areas such as the administration of benefits and payroll compliance.

In addition, Kellogg supports ethical employment practices within our supply chain. Kellogg suppliers must comply with all labor laws in the countries in which they operate, as well as with our Global Code of Ethics, which contains prohibitions against child labor, forced labor and corporal punishment that may go beyond local laws. Each of our suppliers must also agree to follow our Global Supplier Code of Conduct and maintain a Social Accountability program, setting forth a policy for compliance regarding working conditions, including cleanliness, wages and the prohibition of child labor. (See p. 32 in the Marketplace section for more information.)



## Talent Management

Kellogg Company's Talent Management program promotes open, ongoing dialogue between our salaried employees and their managers regarding performance and career development. Through this program, each salaried employee sets annual accountabilities using a Performance Management Process form and completes an Individual Development Plan. This program helps Kellogg develop employees' skills and capabilities, and ensures that the right people are in the right roles, now and in the future.

Our learning and development programs also help to strengthen our employees' abilities and establish Kellogg as a talent powerhouse. To help achieve this objective, our Global Learning and Development team recently launched two new sets of leadership development courses.

In May and June 2009, we launched the W.K. Kellogg Leadership Academy. Designed for the 150 executive leaders at the top of our global company, the Leadership Academy trains executives to be better coaches and to develop other leaders throughout the company, while giving them tools and skills to strengthen their



own talents. The Academy held eight three-day training sessions in 2009 involving nearly two-thirds of our executives. The remainder will complete these sessions in 2010.

In November 2009, we began piloting similar courses—called "The Best to You" classes—for select upper-level managers in the U.S. These training sessions are designed to help Kellogg build a robust leadership pipeline to fulfill future business needs, ensure managers' readiness for executive roles and accelerate professional performance.

These two programs complement Kellogg Company's Great Manager U learning courses, which were launched in February 2008 and are geared toward first-time people managers in the U.S.

We also offer leadership development and training courses tailored specifically to the needs of our non-U.S. work force. In Mexico, for example, we offer six different leadership development courses, on topics such as effective communication, negotiation, conflict resolution and strategic thinking. During 2009, 590 employees took at least one of these courses. In the EU, we have been offering leadership development courses for our top operations executives. In 2010, we will roll out these courses worldwide.

These training curricula—along with additional learning and development courses open to all Kellogg employees—reinforce the six competencies outlined in Kellogg Company's Business Leader Model, which was introduced in 2007. This single, global set of competencies establishes a foundation and common language for leadership within Kellogg, and has been embedded into people practices and performance management globally.

Kellogg also offers a mentoring program to all employees. More than 160 employees have been mentored through this program since 2007.



## Diversity and Inclusion

At Kellogg, we aim to maintain a diverse work force in terms of ethnicity, culture, gender, sexual orientation/identification, age, geography, experience, skills and work styles. To do this, we are working to build accountability for diversity and inclusion throughout our company; educate employees, build awareness and enhance manager effectiveness regarding diversity issues; strengthen our culture of inclusion; and recruit, retain and develop the best employees.

We know that a diverse work force is critical to our current and future success. By ensuring and celebrating diversity, we can better understand and meet the needs of our diverse customer base. We can recruit and retain the most-qualified employees from the widest possible field of candidates. We can have access to a broad range of knowledge and creative ideas. We also can promote goodwill in the communities in which we operate, and remain an employer of choice.

## Kellogg Executives Honored

*Norma Barnes-Euresti,  
Vice President and Chief Counsel,  
Labor and Employment and Intellectual Property,  
was recognized as one of Hispanic Business  
magazine's "25 Corporate Elite."*

*Rolando Ortiz,  
Vice President, Application Solutions,  
was recognized by the Hispanic IT Executive  
Council as one of the "100 Most Influential  
Hispanics in Information Technology."*

At present, two of our Board of Directors members are women, and we also have one African-American and one Hispanic on the Board. Two of the senior executives on our 18-member Global Leadership Team are women and one is African-American. In addition, the team is multicultural with three Europeans, three Australians, two Latin Americans and one Canadian.

### Implementing Our Diversity and Inclusion Strategy

Our Office of Diversity and Inclusion is responsible for partnering with managers to implement our diversity and inclusion strategy, which focuses on accountability through goal setting and tracking; recruitment, retention and development; and building a more inclusive culture.

We recognize that diversity means different things in different countries. Due to the multicultural nature of the U.S. population, most of our diversity work has been U.S.-focused. In January 2010, however, we changed the reporting structure for our Office of Diversity and Inclusion, in an effort to broaden the focus of the office and align its efforts more closely with our global business operations. The office previously reported to our senior vice president of global human resources; it now reports to our chief operating officer. This change will allow us to better set and accomplish diversity and inclusion goals throughout every area of our global business, as well as further build awareness among our entire employee base worldwide.

In 2007, we created an Executive Diversity and Inclusion Council (EDIC), sponsored by CEO David Mackay and consisting of 18 executives from across the company. The EDIC developed a comprehensive diversity and inclusion roadmap to increase visibility for our diversity and inclusion business strategy throughout the organization. Going forward, the leaders of our

business units and functions will assume strategic and tactical accountability for embedding diversity and inclusion into existing business practices.

A significant step we've made this year is adding five accountabilities relating to diversity and inclusion to our Performance Management Process for people managers in the U.S., in an effort to build responsibility for diversity at every level of the organization. For example, managers are now assessed on how well they work to ensure increased diversity among job candidates.

### Training Employees in Diversity and Inclusion

We offer diversity and inclusion training to our employees to build awareness, understanding and business acumen. In 2009, we offered 38 in-person diversity and inclusion training sessions to Kellogg employees in the U.S.

WORKING MOTHER

LATINA Style DiversityInc

BLACK ENTERPRISE HispanicBusiness

nafe  
NATIONAL ASSOCIATION  
FOR FEMALE EXECUTIVES

Kellogg Received  
Multiple Recognitions  
for Diversity in 2009

- » DiversityInc—25 noteworthy companies for diversity
- » Working Mother—100 best companies for working moms
  - » National Association for Female Executives—top 50 companies for executive women
- » Black Enterprise—40 best companies for diversity
  - » Hispanic Business—Diversity Elite 60
- » LATINA Style—50 best companies for diversity

Our Global Leadership Team has also participated in diversity and inclusion training.

More than 1,100 employees took our Knowledge Map courses in 2009. These four-hour, interactive workshops promote an understanding of why and how inclusive behaviors are crucial to the company's success. These courses were recently revamped to include examples from around the globe, and they will be offered to our non-U.S. employees beginning in 2010.

In 2009, Kellogg introduced a new, Web-based training course that gives employees an opportunity to explore how our differences—and similarities—contribute to the company's strength. More than 250 U.S. employees have taken this one-hour online course thus far.

### Supporting Diverse Employees

In the U.S., Kellogg has six Employee Resource Groups (ERGs)—one each for African-American, female, young professional, Latino, multinational, and gay, lesbian, bisexual and transgender (GLBT) employees. The GLBT group—called K-Pride and Allies—is the newest; it was formed in July 2009. The ERGs are open to all employees, and participation is voluntary. Each ERG has a vision and mission statement, business plan, executive sponsor and leadership team. Members meet regularly to discuss business-related topics, foster professional development, drive special projects, develop people skills and network. The groups are also helpful in employee recruitment and retention. Kellogg Company's ERGs have had direct input into a wide range of projects and issues, including benefits packages, advancing cultural awareness, diversity initiatives, community service projects and leadership presentations.

Kellogg is deeply committed to developing and maintaining a diverse work force, and we are working toward our goal of increased representation across the diverse demographics of our consumers. We are making progress, and our efforts thus far have been recognized by several independent publications, as noted on p. 42.

### Employee Safety

One of our goals at Kellogg is best-in-class safety performance. Our yearly target for continuous improvement is a 15 percent reduction in on-the-job injuries, while our ultimate goal is zero injuries. Each sector of our business has safety improvement goals, and performance appraisals for plant managers and business unit leaders include an assessment of performance against these goals.

Occupational health and safety activities at Kellogg are guided by the Corporate Safety group, which educates, leads and assists safety managers across the company with processes, policies, standards and best practices. Each safety manager supports their local management team and employees, ensuring that appropriate policies are used and best practices are shared between facilities and business units. Employee engagement is established through cross-functional safety committees composed of both salaried and hourly employees. Employees receive comprehensive training regarding Kellogg safety requirements, including specialized training for certain jobs and emergency response. In the U.S., employees also receive training specific to Occupational Safety and Health Administration (OSHA) requirements.

## Battle Creek Emergency Response Team Provides Critical Support

In Battle Creek, Mich., home of Kellogg Company's corporate headquarters, more than 90 employees and members of the security team have volunteered to serve on our Battle Creek Emergency Response Team (ERT). These individuals have undergone extensive emergency response training and are ready to provide aid to Kellogg employees during medical emergencies. Signs throughout Kellogg sites in Battle Creek feature the Tony the Tiger character set against a "red cross" medical emblem; these signs indicate that a certified member of the ERT sits nearby.

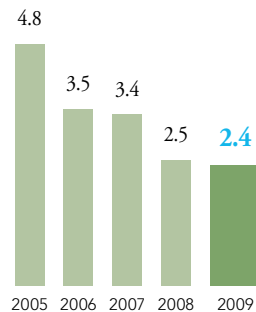
An Executive Safety and Health Committee that includes senior executives meets regularly to share performance, current strategies and best practices. Safety performance is tracked and reported globally on a monthly basis.

We require our suppliers to have systems in place to assess and control health and safety risks for their employees. For example, each supplier must have a written program that identifies potential personal hazards associated with the job and machinery, and must address personal injury identification and prevention in employee training.

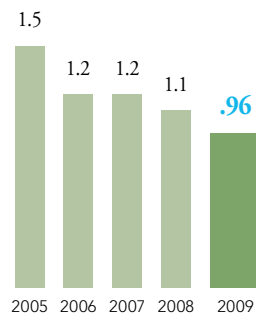


## GLOBAL WORKPLACE SAFETY

### Total Recordable Injuries (per 100 employees)



### Lost Time Injuries (per 100 employees)



## Recent Safety Initiatives

In June 2009, Kellogg unveiled a new tool that provides an at-a-glance snapshot of our U.S. and Canadian year-to-date Total Recordable Incident Rate (TRIR).<sup>2</sup> The *Kellogg Safetyometer* is accessible to employees via the company intranet site. It includes compiled data from all of our plants, distribution centers, offices and sales locations across Kellogg North America, as well as the W.K. Kellogg Institute for Food and Nutrition Research.

Also in 2009, we created a Sales SAFE Committee to focus on the safety of our U.S. sales force. This committee meets monthly to set direction and develop programs for all field sales employees, who spend most of their time on the road and working in customer facilities such as supermarkets. The committee seeks to ensure safe work environments, instill safe behaviors and offer coaching and support. They also track key metrics to identify areas of opportunity and demonstrate success. Among other activities, the committee has implemented the use of rolling carts for in-store storage and transportation of

our products; provided special step stools and box cutters designed to reduce the potential for injury; and launched a new driver training program to promote safety behind the wheel.

In Latin America in 2009, we implemented a “hand protection” safety program in all nine of our plants, as hand injuries are the most common injuries. With this campaign, we reduced the incidence of such injuries by 27 percent.

## Safety Performance

Kellogg Company’s key safety performance data for 2005 to 2009 are shown at left.

In 2009, the company’s Total Recordable Injury Rate was 61 percent lower than the food industry average, and our Lost Time Injury Rate was 31 percent lower than the food industry average. Eight of our facilities in 2009 did not experience a recordable injury and 13 did not record any lost work day cases. Additionally, we experienced no fatalities in 2009.

<sup>2</sup>TRIR is defined by OSHA as the number of injuries per 100 employees requiring medical treatment beyond first aid.

Three Kellogg facilities—two in the U.S. and one in India—have achieved more than three years without a recordable incident. Another five facilities—one in Australia and four in the U.S.—have gone more than three years without a lost-time incident. Among the latter is our distribution center in Omaha, Neb., which has gone more than eight years without a lost-time incident.

Twelve of our U.S. snack bakeries were recently honored for safety excellence from the Biscuit & Cracker Manufacturers' Association. Our bakery in Grand Rapids, Mich., for example, received top honors—the Chairman's Award for Safety Excellence—for a facility of its size. Separately, the Grand Rapids facility also received four awards from the National Safety Council for outstanding safety performance.

## Employee Health and Wellness

*As a global food company, we believe it is important to encourage healthy behaviors among our employees. By fostering a culture of health, we can help employees experience a better quality of life and greater productivity—at work, at home and in the communities in which they live. And, employees who address health issues through early detection tend to get well faster and spend less on health care. Our wellness strategy includes a variety of programs that help employees achieve healthier lifestyles.*

Kellogg Company's wellness program, branded Feeling Gr-r-reat™ in the U.S., helps employees address health risks and boost physical activity. The program includes health screenings, health-risk assessments, health-coaching programs, exercise and weight-loss challenges, and free flu shots for employees and their spouses or



domestic partners. The program was started in 1983 and continues today to motivate employees to live healthier lifestyles. Employee participation has increased steadily. In 2009, 61 percent of U.S. employees took part in Feeling Gr-r-reat™ health screenings.

Around the world, our wellness programs are tailored to local needs. In Colombia, for example, we provide annual health screenings that include optometry and dental exams. We also offer recreational leagues for soccer, basketball, volleyball, table tennis and other sports. In Venezuela, we supply vaccinations and flu shots, sponsor a healthy weight-loss campaign and also support multiple employee sports leagues. In South Korea, we provide special ergonomics education, and our India locations offer exercise facilities and health checkups. Kellogg Southeast Asia offers monthly wellness activities, including presentations on key health-related topics.

In the U.K., we run a Fit For Life campaign for employees. Through this program, free lifestyle assessments are offered at the beginning of each year. In 2009, about 40 percent of employees took part in these assessments, which measure key health indicators such as weight, blood pressure and cholesterol. Other key components of Fit For Life include onsite gyms, health counseling and a cycle-to-work initiative that allows employees to purchase bicycles tax-free.

In 2009, Kellogg added to the incentives available to U.S. active salaried and non-union employees for taking part in health and wellness activities, through a Feeling Gr-r-reat™ Rewards program. Participating employees are now eligible for up

to \$1,100 in savings on their 2010 health insurance premiums. For example, employees who sign a tobacco-free declaration receive \$700 off of their premiums (up from \$360 in 2008). Among the newer incentives offered are \$100 for health coaching, \$50 for getting an annual physical and \$50 for participating in a local sports recreation league. These incentives help to offset employees' rising health insurance premiums.

Two additional activities that offered \$50 savings for participation were the Feeling Gr-r-reat™ Healthy Weight Challenge and the Go-the-Distance Challenge. In the Healthy Weight Challenge, which ran for 10 weeks in early 2009,

3,504 participants lost a cumulative 14,000 pounds, or about 4 pounds per participant on average. In the Go-the-Distance Challenge, which began in June 2009 and also ran for 10 weeks, 5,410 participants accumulated 1.4 million miles of physical activity, which included running, walking, biking and swimming.

In the fall of 2009, Kellogg joined with more than 58 other companies and nonprofit organizations to form the Healthy Weight Commitment Foundation, or HWCF, with a collective goal of reversing the trend of obesity in the U.S. by 2015. While much of that effort focuses on marketplace- and school-related initiatives, we and the other HWCF members are also





bolstering health and wellness efforts for our employees. At Kellogg, for example, we are developing a robust communications strategy that provides greater education for employees regarding energy balance, or “calories in/calories out.” We will also be expanding some wellness initiatives to our employees’ dependents, implementing tools to track calorie intake, as well as expanding calorie information and healthy options in our cafeterias. More detail on the HWCF can be found on p. 20 in the Marketplace section.

Often, individual Kellogg facilities or regions sponsor special health and wellness activities. Kellogg Company’s Asia operations, for example, sponsor a Wellness Week, which includes

## PANDEMIC PREPAREDNESS

At Kellogg, one of our highest priorities is the safety of our employees, as well as the continued availability of our products to valued customers and consumers around the world. In light of the threat to our employees’ health and to business continuity posed by the H1N1 flu virus, in 2009 we developed a Special Global Influenza Preparedness Committee comprised of medical personnel; the Corporate Crisis Management Team (representing our Corporate Communications, Consumer Affairs, Legal, Quality, Safety and Security functions); and supply chain employees. In September 2009, the committee published a Global Influenza Preparedness Plan, to ensure the health and safety of all our employees and avoid disruption of the business. In line with this plan, each Kellogg Company location has appointed an Incident Management Team and a local Pandemic Coordinator. As part of the plan, Kellogg has been regularly communicating with employees about hygiene practices, vaccinations, recognizing the flu’s symptoms, and what to do if they become sick.

nutrition talks and demonstrations, health assessments, group activities such as yoga and soccer, and a gift package containing a pedometer, nutrition information and fresh fruit.

Our Latin America headquarters in Querétaro, Mexico, sponsored a Nutrition, Security and Health Week in 2008 and 2009, with different activities for employees every day. In 2009, we partnered with a pharmaceutical company, which provided health assessments, and an athletics products company, which gave talks on exercise and training. Participating employees could also take part in eye exams, massages and workshops on self-defense, among other activities.





These health and wellness initiatives are among the many features of Kellogg Company's competitive benefits program. Our major pension plans and U.S. retiree health and welfare plans are funded with trust assets invested in a globally diversified portfolio.

### Challenges

While we are proud of our performance in the workplace-related areas described in this section, there always remains room for improvement. One of our biggest challenges has been measuring and tracking our progress globally on these issues. Fortunately, our new human resources data-tracking initiative will provide us with

more consistent and detailed data on a global basis.

The overall diversity of our U.S. work force also remains a focus. And, because diversity means different things in different locations around the world, we are working with leaders at our international locations to understand how best to drive diversity and inclusion outside of our U.S. operations.

Rising health care costs also present a financial challenge for us—as they do for every large U.S.-headquartered company. One way we are addressing this challenge is through our health and wellness programs, which encourage healthy behaviors and preventative care.

## WORKPLACE RECOGNITIONS

The American Heart Association (AHA) awarded Kellogg with Platinum-level recognition in its listing of 2009 Start! Fit-Friendly Companies. Platinum status is granted to those companies that meet the AHA's criteria for fitness, nutrition and a health-focused workplace, and that demonstrate successful outcomes in their fitness programs.

Also in 2009, Kellogg U.K. was ranked 30th in the *Sunday Times'* list of the top 100 best companies to work for. This annual list is based largely on a survey through which employees rank their own companies on issues in eight categories.

And, Kellogg Spain was named one of the best places to work in Spain, and among the 100 best in Europe overall, by the Great Place to Work Institute. Companies are selected for the list based primarily on employee responses to a Great Place survey.



## Where We Are Going

Going forward, we will continue the development of key performance indicators on workplace-related topics, making use of our improved human resources data-tracking capabilities. Through our training and development courses, we will strengthen the leadership capabilities of our upper-level managers so they are prepared to move into executive positions when needed.

We also will continue to embed diversity and inclusion practices throughout our business, and aim for a work force that is aligned with the diversity of our consumer base. In short, we will be “accountable”—an important *K Value*™—for a safe, inclusive, values-driven workplace built on great talent, ethical behavior, lean principles and sustainable results.

### 2009 W.K. KELLOGG VALUES AWARD RECIPIENTS

*Each year since 2005, Kellogg has recognized outstanding employees who have consistently modeled the company's K Values™ while making significant contributions to our business results.*





As a food company, we at Kellogg know that ensuring an adequate supply of food for the world's growing population will require the efficient use of increasingly scarce natural resources. In fact, our business depends on sustainable supplies of water, energy and agricultural crops. We are committed to reducing our company's impact on the environment and working with others to find solutions to global food challenges.



Kellogg is targeting  
**15–20%**

reductions in energy use, greenhouse gas emissions and water use per metric tonne of food produced over a 10-year period from 2005 to 2015.





## SINCE OUR LAST REPORT

Since our inaugural corporate responsibility report in early 2009, we have made good progress toward our environmental goals. In that report, we committed to decreasing our energy use, greenhouse gas emissions,<sup>1</sup> water use and waste by 15 to 20 percent (per metric tonne of food produced) by 2015, working from 2005 baselines.<sup>2</sup>

In late 2009, we decided to change our waste goal to focus on the aspect of waste that has the most significant environmental impact—that of waste sent to landfill. We've decreased total waste sent to landfill by 36.3 percent since 2005, which equates to a 41.5 percent reduction per metric tonne of food produced. We are now seeking to reduce waste sent to landfill (per metric tonne of food produced) by an additional 20 percent from 2010 to 2015.

Since our last report, we also:

- » *Began pilot testing a new environmental and safety management system at 12 Kellogg sites worldwide;*
- » *Undertook numerous initiatives at our facilities around the globe to reduce energy use, CO<sub>2</sub> emissions, water use and waste;*
- » *Conducted environmental footprint assessments to understand CO<sub>2</sub> emissions and water use over the lifecycle of selected Kellogg products;*
- » *Engaged with 67 of our largest suppliers on environmental impact reduction issues, including energy use and CO<sub>2</sub> emissions;*

- » *Implemented “green building” principles in the expansion of our W.K. Kellogg Institute facility in Michigan;*
- » *Opened a state-of-the-art plant in Mexico that features many energy- and water-saving technologies;*
- » *Developed a framework for sustainable packaging to guide our decisions in this area; and*
- » *Initiated several internal endeavors and external partnerships to promote sustainable agriculture.*

## OTHER TOPICS IN THIS SECTION INCLUDE:

- » *Our environmental management approach,*
- » *The activities of our employee GoGreen Teams around the world,*
- » *Recognitions we've received for our environmental performance,*
- » *Challenges we face, and*
- » *Where are we headed going forward.*

<sup>1</sup>Carbon dioxide (CO<sub>2</sub>) is by far the most prevalent of the greenhouse gases associated with the manufacture of our products. We thus use the term “CO<sub>2</sub>” as shorthand throughout this report. Our emissions metrics take into account all greenhouse gases, however, and are technically measured in “carbon dioxide equivalents,” or CO<sub>2</sub>e.

<sup>2</sup>Note that our goals and metrics include Kellogg-owned facilities only.





## New Kellogg Plant in Mexico a Model of Efficiency

When we expand our operations, we seek to do so in environmentally sustainable ways. Our new cereal plant in Mexicali, Baja California Norte, for example—which opened in May 2009—includes the latest in water- and energy-saving technologies.

The facility's water treatment plant reuses treated wastewater for toilet flushing and in chiller cooling towers, and all hand-washing stations use low water flow. Cleaning equipment in the plant uses dry steam rather than water, to minimize water use.

The plant has high-efficiency boilers that use combustion exhaust to pre-heat water before it enters the boilers. Also, high-efficiency electric motors are used for processing and packaging. In addition, variable speed air compressors with demand management were installed in order to reduce energy consumption. Skylight tubes bring natural light into office areas, while solar energy panels were installed for exterior illumination in the parking lot and perimeter fence areas of the site.

### Environmental Management

At Kellogg, we are working to embed environmental sustainability practices into every aspect of our business. At the executive level, environmental issues are overseen by our chief sustainability officer, who is a member of our Global Leadership Team and reports to Kellogg Company's president and CEO. A vice president for environmental stewardship, health and safety is responsible for those areas within Kellogg and also oversees the Global Sustainability Advisory Council, a cross-

functional team focused on creating alignment around our corporate responsibility efforts companywide and sharing best practices. (See the [Corporate Responsibility Governance and Management](#) section on p. 9 for more information.)

We are currently piloting a new environmental and safety management system at 12 Kellogg sites around the world. The system is designed to facilitate audit and compliance management, as well as incident management and reporting, relating to all of Kellogg Company's environmental and occupational health and safety programs.

The system is fully aligned with ISO 14001 and 18001 and will replace the Kellogg Environmental Management System, which we have been using since the late 1990s. We expect to roll out the new system globally in 2010.

Four Kellogg facilities have ISO 14001 certification, including one in Yishui, China. In Mexico, our Querétaro plant has now received five consecutive *Industria Limpia* ("clean industry") certifications from PROFEPA, Mexico's federal environmental protection agency. In 2009, our plant in Toluca, Mexico, also received this certification.

As discussed later in this section, Kellogg in 2009 assessed the environmental footprint of several of our products, looking at CO<sub>2</sub> emissions and water use during the products' entire lifecycle. To do this, we used a methodology called PAS 2050 for CO<sub>2</sub>, which was developed by the Carbon Trust, the British Standards Institute and the British Department for Environment, Food and Rural Affairs. Because there is no global consensus on a uniform approach to conduct such assessments, Kellogg is also taking part in a multistakeholder group in Europe that is seeking agreement on a harmonized methodology for food and beverage products. Called the European Food Sustainable Consumption and Production Roundtable, this group of growers, agricultural traders, food and beverage producers, packaging suppliers and civil society representatives will also identify and develop strategies for handling key sustainability challenges. The effort is supported by the United Nations Environment Programme and the European Environment Agency.

## Environmental Performance

To track how we are doing in relation to our environmental goals, Kellogg facilities submit their energy, water and waste data monthly to our Environmental Stewardship office. Summary progress reports are then provided each month to the managers who oversee our manufacturing operations. Measures relating to sustainability, compliance and energy use are incorporated into our business unit goals and are a part of performance reviews for these managers.

This section describes Kellogg Company's environmental performance in the areas of energy use, greenhouse gas emissions, water use and waste. Last year's report included data for calendar years 2005, 2006 and 2007; this report adds data for 2008 and 2009.<sup>3</sup>

<sup>3</sup>Our reporting capabilities have become more robust and our calculations more precise since last year's report. As a result, our previously reported data for energy, CO<sub>2</sub> and water, for the years 2005–2007, have been revised and restated. Also, please note that our normalized CO<sub>2</sub> and waste figures in last year's report were overstated by a factor of ten. The CO<sub>2</sub> figures have been corrected for this year's report; the waste figures have not been included, since we are now using a new waste metric.

## Leading the Pack OUR ZANESVILLE, OHIO, PLANT

Our frozen foods plant in Zanesville, Ohio, has emerged as a company leader in energy, water and waste reduction.

The facility reduced its electricity use by 21 percent and gas use by 27 percent per metric tonne of food produced between 2005 and 2009. These reductions were achieved through the installation of boiler valve jackets, adjustments to the compressed air system used in processing and packaging, adjustments to refrigeration equipment, and better maintenance of heating and cooling systems and steam traps, among other things.

The plant's water use has decreased by 24 percent per metric tonne of food produced since 2005. The facility has installed better controls to manage water use in the wheat gluten cooking process. Now, the gluten cooker and cooling conveyor use the exact amount of water needed for each batch, and no more. As a result, the facility saved 5 million gallons of water in 2008 alone.

Waste recycling has increased so much that plant managers recently reduced trash pick-ups from three times a week to once a week. And Goodwill Industries—which employs disadvantaged members of the community to sort the plants' recyclables—had to hire an extra worker. Overall, the plant has reduced waste by 43 percent per metric tonne of food produced since 2005.

## PARTNERING WITH STAKEHOLDERS ON SUSTAINABILITY ISSUES

*“At Keystone we like to say that ‘sustainability is a team sport.’ Providing healthy and nutritious food in an environmentally, economically and socially responsible way requires multiple partners, including everyone in the supply chain that links the growers to the consumers.”*

**Sarah Alexander**  
Director of Sustainability and Leadership Programs, The Keystone Center

### Energy Use and CO<sub>2</sub> Emissions

In September 2009, the United Nations Secretary General called the threat of catastrophic climate change “the greatest challenge we face as a human family.” Countries—and companies—worldwide are recognizing the need to stem anthropogenic climate change by reducing greenhouse gas emissions. At Kellogg, we are committed to doing our part in this effort.

We consider energy use and CO<sub>2</sub> emissions to be our most significant direct environmental impacts. Every day, Kellogg manufacturing facilities use energy derived from coal, oil and/or natural gas. We also burn fossil fuels in the transportation of our products to market.

Energy use and CO<sub>2</sub> emissions also represent a significant supply chain impact for Kellogg. Our recent carbon footprint assessments revealed that more than half of our products’ lifecycle carbon emissions can be attributed to the ingredients that go into making them.

## WKKI Expansion Seeks LEED Certification

In 2009, we completed an expansion of our W.K. Kellogg Institute for Food and Nutrition Research, which was constructed according to “green building” principles and standards. We have applied for a Leadership in Energy and Environmental Design (LEED) certification of “Silver” for the 157,000-square-foot addition. Among its many environmentally friendly features, the addition was topped with a white roof to reduce heat load. During construction, we recycled more than 1,400 tons (or 79 percent) of construction waste.

We are mindful of the financial risks—both for Kellogg directly and throughout our supply chain—relating to the potential passage of carbon emissions regulation in the U.S. and other parts of the world. We already operate in several regions, including Europe, where emissions are regulated. We also recognize the physical risks to agriculture and to our operations that may be caused by climate-change-related weather disruptions (such as drought). Kellogg has continuity plans that focus on weather-related situations to help minimize business interruption risk, including sourcing major agricultural commodities such as wheat, corn and soybeans from multiple geographies. We also have plans in place to address longer-term business risks, through

conservation programs and the development of alternative operation strategies. We view climate change as an opportunity to invest in sustainable sourcing programs and to educate and inform consumers about our environmental performance.

Kellogg has made strides in engaging with our suppliers on the issues of energy use and CO<sub>2</sub> emissions. In addition to continuing our annual submission to the Carbon Disclosure Project (CDP), in 2008 we were one of 34 companies globally that took part in the CDP’s Corporate Supply Chain Program. Through this endeavor, the CDP sent questionnaires to 67 of our largest suppliers, asking questions about carbon risks and opportunities, emissions reporting and reduction targets and plans. Twenty-two suppliers answered the survey, and we learned much from their responses. For example, 63 percent of respondents were either well-informed or had some understanding of the regulatory risks relating to climate change, and 45 percent had a CO<sub>2</sub> emissions reduction plan in place. This program helped us to communicate to key suppliers the value that Kellogg places on carbon emissions accounting and management. Going



forward, we will continue to engage with suppliers on this issue through direct contact via our procurement group, as a part of our Responsible Sourcing initiative, which was launched in 2009 and is discussed in more detail in the Marketplace section of this report.

Kellogg joined the U.S. Environmental Protection Agency’s Climate Leaders program in 2006 to publicly express our commitment to reducing CO<sub>2</sub> from our operations in the U.S. The program has provided us with technical information on CO<sub>2</sub> management, access to a standard methodology for measuring our CO<sub>2</sub> emissions and an external assessment of our measurements. We have also been able to benchmark our programs and progress against other companies.

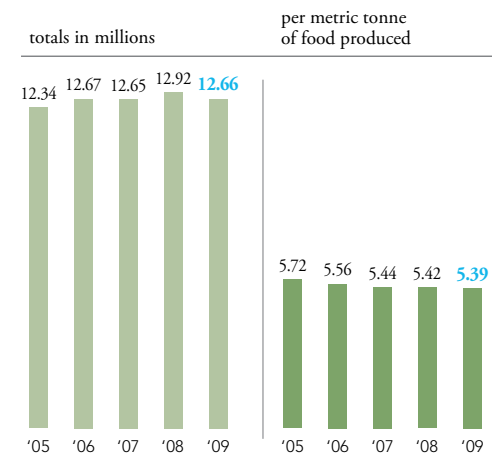
In October 2009, Kellogg joined other major corporations (such as Tesco, Unilever, Coca-Cola and SC Johnson) in becoming signatories to a

set of principles and actions that focus on how businesses tackle climate change and how we can help consumers reduce their own greenhouse gas emissions when using our products. The principles and actions were announced at a conference of the Sustainable Consumption Institute in London, England.

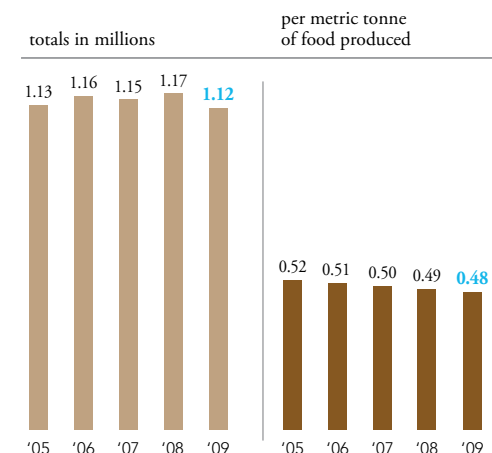
The figures at right illustrate our energy use and greenhouse gas emissions performance since 2005.<sup>4</sup> Our global energy use and CO<sub>2</sub> emissions per metric tonne of food produced have both decreased since 2005—energy use by 5.7 percent and CO<sub>2</sub> emissions by 8.9 percent.<sup>5</sup> We still expect to meet our 15 to 20 percent reduction goals for CO<sub>2</sub> and energy by 2015.

**KELLOGG GLOBAL MANUFACTURING**

**Energy Usage (in gigajoules)**



**CO<sub>2</sub> Emissions (in metric tonnes)**



<sup>4</sup>The protocols we use to calculate our CO<sub>2</sub> emissions are based on the GHG Protocol Corporate Accounting and Reporting Standard developed by the World Resources Institute and the World Business Council for Sustainable Development. Going forward, we will continue to refine and expand the scope of our CO<sub>2</sub> emissions reporting.

<sup>5</sup>“Metric tonne of food” is a measurement of actual food product, not including packaging.

### Facility Initiatives

Kellogg Company's energy and CO<sub>2</sub> reductions are the result of many energy-saving projects and initiatives, small and large, at our facilities worldwide. The following are a few examples:

- » *Our warehouse facility in Brampton, Ontario, Canada, achieved a 30 percent reduction in natural gas consumption between 2005 and 2009 through a variety of initiatives, including installation of an energy management system to control natural gas usage.*
- » *Our Manchester, England, plant switched nearly 3,000 conventional light fittings to energy-efficient T5 fluorescent fittings in 2009. This and other initiatives will reduce Manchester's energy use per metric tonne of product by 2 percent and decrease electricity purchases by 10 percent.*
- » *Electricity use at our Kellogg-operated warehouses in North America decreased 53 percent compared to 2005, due largely to the installation of energy-efficient lights with motion sensors.*
- » *In the U.S., several of our manufacturing facilities have made significant energy use reductions (per metric tonne of food produced). Between 2005 and year-end 2009, our Florence, Ky., bakery reduced its energy use by 24 percent; our frozen foods facility in Atlanta, Ga., achieved a reduction of 14 percent; and our snacks plant in Rome, Ga., also decreased energy use by 14 percent. At all of these facilities, the reductions were achieved via a host of energy-saving measures, such as updating air compressors and waffle irons with energy-efficient models, increasing steam trap maintenance, identifying and plugging air leaks and installing motion-detecting fluorescent lighting.*

### Transportation Initiatives

Our Global Logistics team continues to seek ways to deliver more products to market with fewer vehicles and less fuel. In the U.S. in 2008, our 800-vehicle, Kellogg-operated truck fleet used about 5.3 million gallons of diesel fuel. That equates to just under 54,000 metric tonnes of CO<sub>2</sub> emissions, or less than 5 percent of our total emissions.

In 2009, we joined the U.S. Environmental Protection Agency's voluntary SmartWay Transport Partnership program as a "shipper." As such, we've agreed to use carriers committed to fuel efficiency for at least 50 percent of our contracted truck shipments. In fact, more than 80 percent of our contract transport fleet are members of SmartWay. We are now considering SmartWay membership for our Kellogg-operated fleet as well.



The design of our newly expanded W.K. Kellogg Institute for Food and Nutrition Research incorporates natural light to help reduce our electricity usage.

The following are some examples of our progress to date in reducing transportation-related energy use and CO<sub>2</sub> emissions:

- » *In the U.S., we have decreased per-case fuel use in our Kellogg-operated truck fleet by 40 percent since 2005. We have done this by designing our routes more efficiently, using “governors” to control the speed of trucks and restricting the time the vehicles spend idling.*
- » *Also in the U.S., we have reduced our contract carriers’ diesel fuel consumption by 39 percent compared to 2005, or 10.9 million gallons per year. (That’s the equivalent of 29,000 fewer truck shipments since 2005.) These reductions were achieved through a 93 percent increase in our use of intermodal transportation, as well as more-efficient packing of products for transport.*
- » *We are currently implementing other ways to reduce fuel use, including raising temperatures on refrigerated trucks (while still meeting quality and food safety requirements), limiting engine idling time at loading docks and increasing the size minimums for return shipments, to reduce the number of total shipments.*
- » *Our contract transport fleet in Canada has taken these kinds of measures and, as a result, increased average miles per gallon from 6.7 in 2005 to 8.5 in 2009. This equates to a 27 percent reduction in CO<sub>2</sub> emissions.*
- » *In the U.K. in 2008, we reduced our CO<sub>2</sub> emissions from transport by just over 11 percent per metric tonne of food produced compared to 2006. A significant portion of this reduction was due to our combining of shipments with the global health and hygiene company Kimberly-Clark, in partnership with the supply chain management company TDG.*

## Water

Fresh water is a precious natural resource—one that is vital to life and yet increasingly scarce worldwide. According to the United Nations, global water consumption has tripled in the last 50 years, as world population has grown. Future water needs are hard to predict, but continued population growth (from about 6.8 billion now to an estimated 9 billion by 2050) and the effects of climate change on hydrologic cycles are likely to increase pressure on water supplies for many years to come.

Kellogg Company’s largest water impact occurs in our agricultural supply chain, which is one reason we are engaging in efforts to encourage efficient and sustainable agricultural practices. Our water footprint assessments revealed that agriculture accounts for more than 95 percent of the water used during the lifecycles of several of our cereals. We also use water in our manufacturing facilities—for cleaning, process heating,



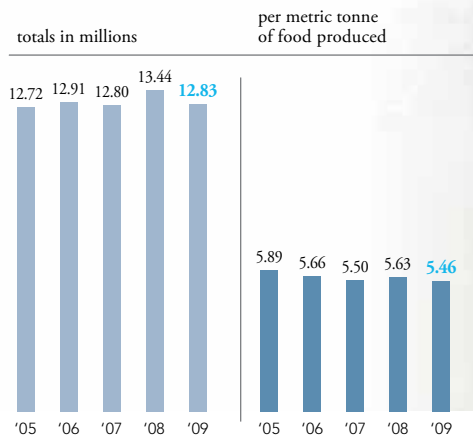
## Kellogg Australia Helps Fund Water Footprint Work

In Australia, Kellogg joined with other food manufacturers to fund a water footprint study conducted by the Commonwealth Scientific and Industrial Research Organisation. (This study was funded through the Sustainable Agriculture Initiative, of which we are a member, and was separate from our internal water footprint assessments). The study tested a footprinting methodology that takes into consideration the type of water used (e.g., irrigation or rainfall) and the degree of local water scarcity. It determined baseline data for wheat, oats and barley that can be used by food manufacturers to calculate the water footprints of food products made from these ingredients. The study will help Kellogg and other food companies to work toward quantitative comparisons between different products, production systems and supply chains in terms of their potential to contribute to water scarcity.

Nearly 70 percent of all water use worldwide is attributable to agriculture. Our water footprint assessments revealed that agriculture accounts for more than 95 percent of the water used during the lifecycles of several of our cereals.

#### KELLOGG GLOBAL MANUFACTURING

Water Use (in cubic meters)



cooling machinery, in wet filtration systems and as a raw ingredient in our products.

Water scarcity in agricultural regions has the potential to increase our food input costs. This is especially true for crops that require a lot of water to grow, such as rice. Water shortages in areas where our facilities are located could potentially disrupt manufacturing. In addition, water used for irrigation and manufacturing must meet certain quality standards, so we are dependent on other users within each watershed to maintain acceptable quality. We are mindful of these potential risks and are prepared to address them if they arise.

To do our part in water conservation, we are continually seeking ways to minimize our water use and our impacts on local water supplies in the communities in which we operate. The figure above left shows that we have made progress in reducing water use compared to our 2005 baseline year; our water use per metric tonne of food produced decreased by 7.4 percent during that time.

Many of our Kellogg facilities have made good progress in reducing their water usage. For example:

- » *The Zanesville, Ohio, plant, highlighted in the sidebar on p. 53, has reduced water use by 24 percent per metric tonne of food produced since 2005.*
- » *At our Manchester, England, facility, water for cooling the corn and rice rolling mills was previously extracted from deep wells on site, and then discharged into a local canal. In 2009, the facility installed a recirculatory water system with an air-cooled chiller unit. This system will save 400,000 cubic meters of well water per year and eliminates any environmental concerns about water releases into the canal ecosystem.*





## Waste

Any material that leaves a Kellogg manufacturing plant that is not part of a package of food represents a waste of money and a waste of natural resources. Reducing waste makes sense for both the planet and our bottom line, and it is the right thing to do.

On average, more than 90 percent of the waste Kellogg generates is recycled, converted to energy through incineration or used for animal feed. Less than 10 percent of our overall waste ends up in a landfill. And in fact, 18 Kellogg facilities in four different countries currently send less than 5 percent of the waste they generate to landfill.

In 2009, we changed our waste goal to focus squarely on waste sent to landfill. It's the aspect of waste that is of most interest to us and of most environmental concern, and for which we have the most accurate historical data. Previously, our goal was a 15 to 20 percent reduction in all forms of waste, per metric tonne of food produced, by 2015, using 2005 as a baseline. Our new goal is to further reduce waste sent to landfill by an

## Waste Product or Valuable Resource?

Food waste is a byproduct of every food company's manufacturing process. It can occur in a variety of ways, including edge cuts, excess ingredients or dough, or food damaged during processing or packaging. Livestock producers view this food not as waste, but as valuable and nutritious raw material that is essential to their own food production supply chains. Instead of sending this waste to landfill, we sell it for use as livestock feed. This re-use is an efficient use of natural resources and agricultural inputs.

additional 20 percent (per metric tonne of food produced) by 2015, using 2009 as a baseline. Even as we do so, we're continuing to better understand how best to drive improvements in our waste metrics.

We've established this new target from a 2009 baseline because, as seen at right, we have already made significant progress in reducing waste sent to landfill.<sup>6</sup> In fact, we've decreased total waste sent to landfill by 36.3 percent since 2005, which equates to a 41.5 percent reduction per metric tonne of food produced.

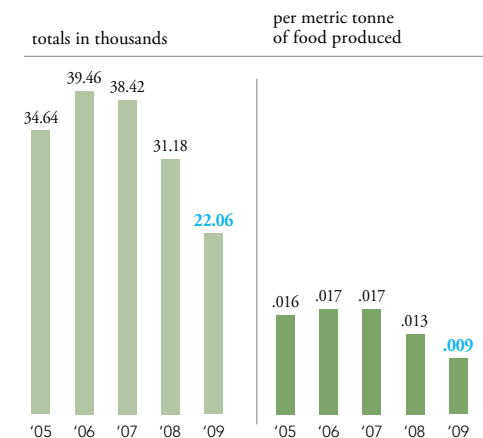
To make progress toward our new goal, we will continue to reduce the total amount of waste we generate, maximize access to recycling infrastructure for as many materials as possible, and work with feed suppliers to provide our food waste as a byproduct for their animal feed.

The following are examples of waste reduction and recycling activities at Kellogg locations this past year:

» *In North America, we switched from disposable to reusable air bags for contract carrier shipments. (Inflatable air bags are used to fill gaps between cases in transport, to minimize shifting and protect our products.) This*

### KELLOGG GLOBAL MANUFACTURING

#### Waste Sent to Landfill (in metric tonnes)



<sup>6</sup>The waste data includes Kellogg-owned manufacturing facilities only.

## Recycling at Kellogg

While recycling at our facilities varies based on the recycling infrastructure in each locality, at most facilities we recycle plastics, metals, cardboard, paper and paper products, and wood.

*reduced air bag disposal waste by 42 percent compared to 2005. We also reduced our use of slip sheets (large pieces of cardboard placed on a truck floor under the product) by 33 percent compared to 2005.*

» *Our facility in Wrexham, U.K., installed equipment that enables proper baling of plastic*

*bags, film, cups and containers as well as aluminum cans, so that these items can now be recycled rather than sent to landfill. This has helped to decrease Wrexham's total waste sent to landfill to about 6 percent.*

» *In 2009, our plant in Memphis, Tenn., found themselves with more than 460,000 blank white cereal boxes and nearly 30,000 unmarked cardboard cases, worth more than \$66,000. The materials were left over from testing processes, and Kellogg employees worked to find an organization interested in using them. Ultimately, the nonprofit Feeding America accepted the materials and used them for repacking bulk food for delivery to needy families.*

» *At our Talbot Road U.K. headquarters, we reduced the amount of waste generated by nearly 22 percent and increased waste sent to recycling by 69 percent between 2005 and year-end 2008.*

» *Our Botany plant in Australia has reduced its waste to landfill by 41 percent since 2006, such that now 95 percent of its waste is diverted from landfill to recycling. The plant achieved this performance by installing new bins and clear signage, educating employees and waste contractors, and improving waste data recording.*



## Sustainable Packaging

Kellogg Company's packaging protects our products in their journey from our manufacturing facilities to retail locations to consumers' homes. Packaging prevents breakage and keeps our products fresh and safe. It also provides space on which to display nutrition information as well as marketing information such as product attributes and logos.

At the same time, packaging represents a challenge for society if it is not properly managed after use. And, it requires natural resources and energy to produce and transport. We estimate

that packaging accounts for about 15 to 20 percent of our products' lifecycle carbon footprint. We are committed to reducing our overall packaging, increasing our use of recycled content as well as increasing the recyclability of our packaging.

In early 2009, we defined *sustainable packaging* for our global operations to mean packaging that is designed to have the least possible impact on the environment while delivering efficient costs and a safe, high-quality product to our consumers.

Our Global Sustainable Packaging Team, established in December 2008, developed a framework that will be used across the company to make packaging decisions that improve our package-to-food ratio, percent recycled material

content and percent materials that are commonly recoverable. The team also developed a roadmap outlining longer-term strategic packaging initiatives, and every quarter they report internally on progress. These efforts build on source-reduction initiatives that Kellogg has had in place since 1994 and that have resulted in materials use reductions each year.

In 2009, we tested compact boxes for some of our popular ready-to-eat cereals—boxes that delivered the same amount of product but with less packaging. In April, for instance, we tested a compact cereal package at a major retailer's stores across the U.S., and from January to June, we conducted a similar test with two Detroit-area retail locations. The tests were designed to gauge consumer acceptance and retailer feedback.





We learned much from the tests; however, the results did not warrant a national rollout of these specific package designs. In the end, we concluded that when selecting from the multitude of options in a retailer's cereal aisle, most customers assume the smaller boxes contain less cereal and thus are not as good a value as the larger boxes—even though graphics on the packaging clearly state that both boxes hold the same amount of product. Going forward, we will continue to look at options for optimizing packaging from a sustainability and efficiency point of view.

At present, almost all of Kellogg Company's cereal cartons are made of 100 percent recycled fiber, with at least 35 percent coming from consumer-recycled material. In fact, we are one of the largest users of recycled paperboard in the U.S., and we've been using it since our founding in 1906.

The following are some recent examples of our efforts to ensure more sustainable packaging:

- » *Over the past two years, our La Jolla, Calif.-based Kashi business reduced the amount of packaging material used for its frozen entrees by 20 percent and for its thin-crust frozen pizzas by 11 percent.*
- » *In India, our packaging plant revised case configurations and laminate specifications, thereby reducing the amount of packaging material per kilogram of finished food by 2 to 8 percent, depending on the product.*
- » *Kellogg Mexico reduced the size of liners for several kinds of cereal bars made at our Toluca and Linares plants. In the two years since, the project has saved 62 tons of packaging material and more than \$2 million.*
- » *In Europe, we redesigned the cases for our snack singles, saving 60 metric tonnes of paperboard per year.*
- » *The paperboard for Kashi U™ cereal boxes is printed with soy inks by a printer that offsets its electricity with wind power.*
- » *In June 2009, our Kashi® and Bear Naked® brands announced a creative “upcycling” partnership with TerraCycle, Inc. Through this program, Kashi® and Bear Naked® consumers are organized into “brigades” that collect and send boxes and wrappers of those brands to*

*TerraCycle, which then repurposes the materials into eco-friendly accessories (such as office supplies and tote bags) and sells them. As incentive to send in materials, TerraCycle donates two cents to the brigades' charity of choice for every package returned. As of year-end 2009, more than 50,000 pounds and 700,000 pieces of pre- and post-consumer product packaging have been sent to TerraCycle for upcycling.*

- » *Kashi® also partnered with RecycleBank, a company that provides consumers with incentives for recycling. In participating municipalities, RecycleBank measures the amount each consumer recycles and provides reward points that can be used to buy goods from its partner companies—including Kashi®. In 2009, RecycleBank earned a Champion of the Earth designation from the United Nations Environment Program.*
- » *In the U.K., Kellogg was one of the first companies to join the industrywide On-Pack Recycling Label initiative. This label, currently used by 50 U.K. businesses, gives consumers clear guidance on how to dispose of their packaging. In January 2009, Kellogg introduced the label on cereal packages. To date, the label has appeared on approximately 50 million Kellogg's cereal packages in the U.K., with plans to introduce the label on our other products in the future.*



## Sustainable Agriculture

In the coming decades, feeding the world's growing population is going to be a monumental task. As a food company, we take very seriously our responsibility to help ensure a sustainable food supply and encourage sustainable agricultural practices, including the use of biotechnology where appropriate and accepted by local consumers.

At Kellogg, our vision for our sustainable agriculture work is to:

- » *Identify agricultural practices and strategies that will help meet the world's growing need for safe, nutritious food;*
- » *Decrease impacts on the environment; and*
- » *Improve the social and economic well-being of agricultural communities.*

As mentioned previously, our preliminary environmental footprint work—which assesses CO<sub>2</sub> emissions and water use over the lifecycle of individual products—shows that our products' biggest impacts occur during the growing and processing of our food ingredients, before they reach a Kellogg facility.

Kellogg is currently developing an ingredient sustainability matrix, which will show which ingredients are the most carbon- and water-intensive to grow. The knowledge we are gaining in developing this matrix will help us as we engage with our suppliers—so we can set priorities for environmental improvements in our supply chain and determine where we can have the most meaningful impacts.

While these companywide efforts are important, large-scale, systemic improvements in agriculture's environmental impacts will only be possible if all players in the food production system seek solutions together. We are thus participating in

the following three collaborative efforts to promote sustainable practices in production agriculture.

» *Field to Market: The Keystone Alliance for Sustainable Agriculture, is a multistakeholder group committed to achieving long-term continuous improvement in sustainable agriculture production. Organized and facilitated by the nonprofit Keystone Center and funded in part by Kellogg, Field to Market includes growers, agribusinesses, food companies and conservation organizations. In 2009, the participating organizations jointly developed sustainability metrics for corn, wheat, soy and cotton in the U.S. They also developed a Fieldprint Calculator—an online tool that enables farmers to evaluate their natural resource use, compare it to industry averages and ultimately increase the efficiency of their operations. In January 2010, the Field to Market initiative received an award from the National Agri-Marketing Association*

### BUILDING SUSTAINABLE AGRICULTURE RESOURCES

*“In 40 years, we've got 9.25 billion people coming for dinner, and we've got to be able to feed them without one hectare more land and without one drop more water. To do that, the best, most sustainable agricultural practices we are using now—here and there—will need to be used everywhere. Is sustainable agriculture possible? Absolutely. But we need every tool in the toolbox to do it.”*

Dr. Marty Matlock,  
Professor, Department of Biological and Agricultural Engineering,  
University of Arkansas, and participant in Keystone Field to Market



*(NAMA), the nation's largest association for professionals working in agribusiness marketing and communications. The NAMA award recognized Field to Market's efforts to launch the organization and help drive the dialogue about sustainable agriculture. (See [www.fieldtomarket.org](http://www.fieldtomarket.org).)*

» *The Sustainable Agriculture Initiative (SAI) Platform is a food industry effort that aims to*

*share knowledge, raise awareness and support the implementation of sustainable agriculture practices broadly. In 2009, Kellogg joined SAI chapters in Europe and Australia.*

» *The Roundtable for Sustainable Palm Oil (RSPO), of which Kellogg is a member, is working to promote the growth and use of sustainable palm oil. We only purchase from growers committed to increasing the supply of*

*sustainable palm oil as demonstrated by their membership in the RSPO. We are also helping to increase the worldwide supply of sustainable palm oil by purchasing GreenPalm Certificates. Funds from the GreenPalm Certificates help RSPO members further their efforts to produce sustainable palm oil.*

KELLOGG CORPORATE RESPONSIBILITY EFFORTS RECOGNIZED BY EU LEADER

*"We can learn much from the successes of Kellogg in combining business and social and environmental responsibility. Being able to hold one's own in these crucial areas while remaining a leading player competitively makes you a model for others."*

Vladimir Spidla,

Former European Commissioner for Employment, Social Affairs and Equal Opportunity, speaking at the 2009 European Business Summit

## Employee Initiatives

In last year's report, we discussed several employee-driven environmental efforts and the formation of our first "green teams" in North America. This year, we're pleased to report that the team approach to employee-driven sustainability has taken hold throughout our global organization. We now have active "GoGreen Teams" in our European, Latin American, Asia Pacific and North American regions. These GoGreen Teams sponsor events and activities that contribute, along with our corporate-wide initiatives, to Kellogg's progress toward the environmental goals outlined in this report.



Many GoGreen Teams held events during Earth Week in April 2009, such as a "turn it off and turn on to the weekend" campaign that educated employees about the energy savings that could result from turning off all computer equipment for the weekend. Employees at our Creekbank facility in Canada took part in a "creek clean-up" on Earth Day. Their GoGreen Team also distributed reusable water bottles and grocery bags to employees, eliminated Styrofoam cups at internal meetings and introduced compost bins, all in an effort to reach a goal of "zero waste to landfill." In less than six months, the office increased the percent of waste diverted from landfill from 63 percent to 86 percent and was close to achieving its "zero waste to landfill" goal at the end of 2009.

The Latin American GoGreen Team's "Go Paperless" campaign in Querétaro, Mexico, succeeded in reducing paper use in administrative areas by 59 percent in just two months by requiring paper to be used on both sides before recycling and tracking monthly use by area, among other measures.

In Europe, the GoGreen Team at our Talbot Road U.K. headquarters succeeded in reducing paper use by 290,000 sheets in 2008. This in turn saved nearly \$3,000 in paper costs and \$33,000 in toner costs. Similarly, Kellogg France reduced their paper use by 19 percent in 2009. And the

GoGreen program at our European headquarters in Dublin succeeded in engaging employees to reduce waste sent to landfill by 75 percent and energy use by 25 percent since 2005.

Throughout Europe, GoGreen Teams are being organized and launched through the identification and training of "environmental champions" at each Kellogg location. Each champion is charged with building a strong environmental responsibility culture at their facility and is supported by a regional steering group, to whom they report progress quarterly. The first team training for environmental champions throughout Europe was held in April 2009 in the U.K.

## Recognitions

We are pleased that our environmental efforts are gaining recognition from external sources. For 2007–2008, Kellogg Company's Querétaro plant was granted an *Excelencia Ambiental* ("environmental excellence") award from the Mexican federal government, for exceeding environmental compliance measures and demonstrating environmental stewardship. And in September 2009, *Newsweek* ranked Kellogg 115th in its "green rankings" of the 500 largest U.S. companies. Kellogg was 7th out of 29 food and beverage companies.





## Challenges

Despite the good progress Kellogg made over the last year, we continue to face multiple challenges in our environmental efforts. In the area of energy and CO<sub>2</sub> emissions, for example, it is becoming clear that in the facilities and offices where we have identified and implemented the more straightforward fixes (e.g., high-efficiency fluorescent lighting), further gains will require more complex and/or expensive solutions.

We are also keeping a close eye on government regulations that may affect us—for example, future climate change regulations in the U.S., current and future packaging reduction policies in the U.K., and proposed environmental labeling regulations in Korea, Japan, Sweden, France and the U.S. We are mindful that some of these policies may have the effect of increasing our costs, at a time when consumers are most concerned about finding products at a price they can afford.

Engaging with our suppliers on environment- and agriculture-related issues also remains an important task. We know that our operations are part of a complex global system that will be under increasing strain, due to the need to provide food for a growing population using finite resources. We also recognize that long-term, sustained effort will be needed to partner with our agricultural (and other) suppliers in order to reduce the lifecycle environmental footprints of our products.



## Where We Are Going

We remain committed to meeting or exceeding our environmental goals by 2015. It's the right thing to do, it makes good financial sense (to reduce resource costs) and, increasingly, consumers expect it. In 2009, we surveyed consumers in the U.K., Germany, Spain, France and Sweden to understand how their perceptions of sustainability impact brand preference. We found that consumers want companies—especially food companies—to take action on issues of sustainability, particularly environmental problems. The results of this survey confirmed for us that our stakeholders will continue to support our sustainability efforts going forward.

To make further progress toward our environmental goals, we are:

- » *Continuing to drive awareness throughout the company of our environmental impacts;*
- » *Identifying and implementing ways to reduce energy use, CO<sub>2</sub> emissions, water use and waste in our operations and distribution system;*
- » *Engaging with our suppliers to drive reductions in their CO<sub>2</sub> and water impacts;*
- » *Working to deepen our understanding of the lifecycle carbon and water footprints of our products, in order to identify the points of leverage at which we can encourage our suppliers to reduce their impacts;*
- » *Continuing to drive improvements in the sustainability of our packaging;*

- » *Seeking alignment with our peers and retailers on common environmental assessment metrics, methodologies and standards;*
- » *Exploring additional collaborative options with foundations, government agencies and NGOs on sustainable agriculture; and*
- » *Implementing our new environmental and safety management system.*

In the longer term, we aspire to reduce the carbon footprint and the water footprint of our products and be recognized as an energy-, water- and waste-efficient business. We also seek to firmly embed our sustainability strategies within our businesses across the globe. We know it will take the combined effort of our entire global work force, and many colleagues outside the company, to achieve this. We look forward to reporting on our progress next year.





Social responsibility has been a key part of our heritage since our founding more than a century ago. Our stakeholders—consumers and customers, employees and retirees, policymakers and shareholders—expect Kellogg to be a good corporate citizen, and we hold ourselves to this same high standard. We believe it's important to continue the commitments of our founder, W.K. Kellogg, by investing in our communities and assisting those in need.

Our charitable contributions and social responsibility programs are funded from two primary sources: Kellogg Company and Kellogg's Corporate Citizenship Fund. Four independent members of our Board of Directors guide our community engagement approach through the Social Responsibility Committee. The W.K. Kellogg Foundation, a separate and distinct entity, makes its own investments and is governed by its own independent Board of Trustees.





## SINCE OUR LAST REPORT

Over the last 18 months, we have worked to shift our community investment programs to focus even more strategically on those that best align with our objectives as a global food company. To that end, we have been concentrating on nutrition (including malnutrition) and physical fitness through product donations for the hungry, as well as programs that educate children and parents about good nutrition and help families stay active.

As part of that realignment, we have been evaluating our philanthropic strategy to make fewer, but more impactful, investments. One prime example occurred in June 2009, when we donated an entire day's worth of cereal production in the U.S. to Feeding America, the nation's leading hunger-relief organization. That unprecedented donation is discussed in greater detail in this section along with other programs we focused on in 2008 and 2009, including:

- » *Breakfast programs we sponsor around the world;*
- » *Hunger relief efforts in the U.S. and internationally;*
- » *Global programs that encourage physical fitness and better nutrition—particularly among young people; and*
- » *Community development assistance, such as the recent Frosted Flakes® playing field makeover program and our United Way contributions.*

## OTHER TOPICS IN THIS SECTION INCLUDE:

- » *Our company's approach to strategic philanthropy,*
- » *Brand philanthropy initiatives around the world,*
- » *Disaster relief efforts,*
- » *Diversity programs, including scholarships,*
- » *Challenges we face, and*
- » *Where we are headed going forward.*





## Strategic Philanthropy

At Kellogg, we work to leverage our financial resources, work force talents and brands to support the communities in which we operate, as well as the global community overall. In 2009, we contributed more than \$9 million in cash and \$22 million in products to non-profits and charitable organizations worldwide.

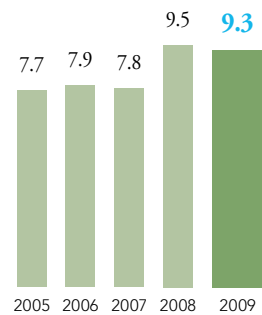
Kellogg allocates the equivalent of 2 to 2.5 percent of pre-tax profits to support social improvement initiatives. Each year, we aim to donate cash contributions (equal to half a percent of our pre-tax profits) to credible and effective nonprofit organizations. This target was set by company management and the Social Responsibility Committee of our Board of Directors. Kellogg also makes annual in-kind product donations, equal to 1.5 percent to 2 percent of pre-tax profits. In addition, many of

our employees volunteer their time and energies in their communities, although we do not tally the number of collective hours they contribute.

Our strategic philanthropy programs fall into three key areas: nutrition and physical fitness, including breakfast programs and hunger relief; community development; and initiatives that expand opportunities for people of diverse backgrounds.

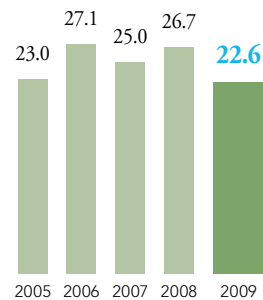
### CASH CONTRIBUTIONS

Total in millions



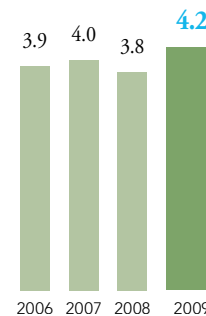
### IN-KIND CONTRIBUTIONS<sup>1</sup>

Total in millions



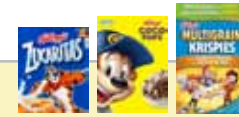
### BRAND PHILANTHROPY<sup>2</sup>

Total in millions



<sup>1</sup>These products are valued at cost of goods sold.

<sup>2</sup>Data not available for 2005.



## Brand Philanthropy

IN 2009, OUR INDIVIDUAL BRANDS SUPPORTED A WIDE RANGE OF CHARITABLE AND PHILANTHROPIC INITIATIVES, INCLUDING THE FOLLOWING:

- » In Mexico, several Kellogg brands sponsored a program to protect endangered sea turtles, releasing one turtle back to the sea for the purchase of each box of Zucaritas® (Frosted Flakes), Eggo® and Special K®, among other brands.
- » Also in Mexico, Special K® donated funds for breast cancer research. And in South Africa, Special K® donated funds to Pink Link, a breast cancer support network.
- » In the U.K., a promotion for Coco Pops® (in partnership with the Born Free Foundation) resulted in a £50,000 donation to help establish a wildlife sanctuary in the African nation of Malawi.
- » In Sweden, we partnered with the Swedish Cancer Foundation to raise \$190,000 through sales of Special K®.
- » In Ireland, a Corn Flakes® promotion garnered enough support to fund the planting of 579,000 trees in Africa, thanks to a €10,000 donation from Kellogg, plus €40,000 from consumers. Kellogg Company's Ireland business made another €20,000 donation, also through a Corn Flakes® promotion, to fund a milk storage facility for rural dairy farmers in Uganda.
- » In Canada, Rice Krispies® continued to spread the message of philanthropy through its Share a Square program, which encourages Canadians to give back to their communities and instill charitable habits in young children. In mid-2009, we committed to donating one dollar to Breakfast Clubs of Canada—up to a maximum of \$100,000—for every box of Rice Krispies® cereal and Rice Krispies Square Bars® sold.

### Breakfast Programs

Scores of studies around the globe have consistently shown that children who eat breakfast have more physical and mental energy than those who do not. Breakfast eaters are also more likely to have healthier body weights, greater vitamin and mineral intakes and better memory skills. And, ready-to-eat cereals are a good source of vitamins and minerals for children.

Through Kellogg's Corporate Citizenship Fund, we support researchers studying the impact of breakfast and the importance of fiber as part of our efforts to encourage better health. We also support nonprofits such as Action for Healthy Kids, which works to improve nutrition and physical activity in U.S. schools. In 2009, we provided Action for Healthy Kids with \$55,000

in grants, plus technical assistance, for a pilot initiative that will expand access to breakfast programs in 41 schools across the U.S. The funds (part of a larger Kellogg grant of \$400,000) will be used with a goal to increase parental awareness of and boost student participation in free school breakfast programs by 25 percent, helping to ensure that children get healthy foods to start their days. In the U.S., 18.4 million children receive free or reduced-price lunch through federal programs on an average day, but less than half take advantage of similar breakfast programs.

In a number of countries where government-sponsored breakfast programs do not exist, Kellogg's Corporate Citizenship Fund has

supported the development and promotion of "breakfast clubs"—school-based programs that serve hundreds of thousands of morning meals to children each year. In the U.K., we have worked to develop and support breakfast clubs in schools and other settings, serving more than 1 million morning meals to young people every year. Our breakfast club program started in the U.K. 10 years ago and has served as a model for similar initiatives in other markets. In 2009, we announced additional funding of £340,000 over three years to develop clubs in the 500 poorest areas of the U.K. In Australia and New Zealand, where research shows that one in four children skip breakfast, we donate about \$100,000 worth of cereals each year to Breakfast Buddies, which provides meals in schools and clubs.





## Product Donations

Each year, food and grocery companies are faced with billions of dollars of surplus products that can't be sold, but that still provide important nutrition to those in need. These products are essential to help feed the estimated 1 billion people worldwide who are undernourished. Food banks and networks like the Global FoodBanking Network (GFN) help companies like ours distribute food to those in need, rather than send edible products to landfills.

Product surpluses are inherent in companies as large as ours; we are committed to ensuring that they are used to reduce hunger. By donating our surplus products, we not only help those in need, but we also reduce waste, lower disposal costs and improve employee morale.

Kellogg recently revised our policy relating to products that are damaged during transit and are unfit for sale in stores. In the past, these products would be labeled waste. We amended our policy in early 2009 to allow these products to be donated, as long as they meet our strict quality checks. In 2009, nearly 44,000 cases of products—with a retail value of more than \$2.1 million—went to food banks rather than landfills.

In Germany, Kellogg worked with a longstanding partner, the German School Sports Foundation, to establish seven breakfast clubs in 2008 and 2009 as part of a pilot program that serves 430 breakfasts each week. We hope to expand the program in coming years. In Belgium, we have agreed to help establish six breakfast clubs in Brussels and other locations. We also recently launched new breakfast programs in Korea and Ireland.

In the Netherlands, we contributed €40,000 in 2009 to an educational pilot program called

Breakfast at Home, which aims to teach parents and children about the importance of breakfast. Organized by the municipal government of Rotterdam, this public-private partnership program is linked to primary schools in the city's less-affluent neighborhoods. The donation from Kellogg is being used to develop educational materials, including papers, posters, game cards, stickers and recipe books.



## Hunger Relief

The economic recession has challenged food banks across the U.S. to keep pace with a 30 percent increase in demand for food assistance. In response, Kellogg donated an entire day's worth of cereal production to Feeding America. In total, we produced and donated 3.7 million pounds of Rice Krispies®, Raisin Bran®, Product 19® and Crispix®—worth approximately \$10 million in retail value—or about 55 million servings. Cereal is always needed in food banks because it is convenient, shelf-stable and provides many essential nutrients.

This donation was the first time in Kellogg history that we ran our production lines specifically for charitable contributions, and we were the first large food manufacturer to do so.

Kellogg has been a committed donor to Feeding America since the organization was founded as America's Second Harvest 30 years ago, and we have contributed more than 124 million pounds of food to the organization over the last five years.

To encourage consumer donations to Feeding America and to coincide with our cereal production donation, we teamed up with Katalyst, a social media studio co-founded by actor Ashton Kutcher, to raise awareness of the growing hunger epidemic in the U.S. Kutcher's wife, actress Demi Moore, directed a video created with consumer-generated content that can be found on the Kellogg Cares Facebook page ([www.facebook.com/kelloggcared](http://www.facebook.com/kelloggcared)). During the campaign, consumers could become a fan,

<sup>3</sup>To protect their privacy, this report uses first names and last initials only for our non-executive employees.

### COMMENTS ON KELLOGG COMPANY'S DONATION OF A DAY'S WORTH OF CEREAL PRODUCTION TO FEEDING AMERICA

*"As someone relatively new to Kellogg, I had heard a lot about the leadership Kellogg has always shown to provide for people in need. When I was asked to help deliver this effort, I had no idea that I would be participating with a group of professionals that were so committed to doing all they could to get food to those in need. The heartfelt energy around the Feeding America donation was infectious. I'm proud to be a part of this company."*

Daniel T., Senior VP, Customer Logistics Services, Kellogg Company<sup>3</sup>

*"I wanted to send the Kellogg Company a note of thanks for your 'day of production.' The role modeling Kellogg is playing within the food industry will have great influence and consequence. We have talked for years about just such a program and have hoped and prayed that a very significant and well-respected company like Kellogg would one day set the example. Our hope is that it will be emulated by others around the world."*

Bill Bolling, Founder & Executive Director, Atlanta Community Food Bank



## Social Media Award

Our Kellogg Cares Facebook site won a prestigious "SAMMY" Award in 2009 for "Best Social Good Contribution." The SAMMYs honor overall excellence and breakthrough achievements in social advertising, media and marketing. Winners are chosen by a panel of leading social media and marketing experts, journalists, marketers, publishers and social technology visionaries.

make a donation to Feeding America and learn about other ways to help. The goal of this innovative new initiative was to engage even more consumers in the fight against hunger. We continue to use our Kellogg Cares Facebook page to communicate our community efforts to more than 200,000 fans.

We are continuing to explore new ways to employ social networking channels like Facebook to reach consumers on critical issues such as malnutrition and hunger.

Our businesses around the world sponsor a variety of hunger-relief efforts in their countries of operation. Kellogg Japan, for example, donated 2.5 tons of cereal—or about 73,000 meals—to the Second Harvest Japan food banking network in 2009. This donation is especially significant since the food banking approach is just beginning to gain momentum in Japan. Kellogg Japan also has contributed \$30,000 in cash each year since 2001 to support a toll-free hotline for the "Child-Line" program, which provides food and shelter for hungry children. And in Canada, we

donated more than 500,000 pounds of food in 2008 to Food Banks Canada and its affiliates, ranking our company as one of the organization's top five donors for the year and raising our food donations total to more than 1.7 million pounds since 2004.

In Europe, all of our regional operations are working with local food banks to provide food for the needy. In France, for example, we donated 9 metric tonnes of food to Banque Alimentaire in 2009.

### The Global FoodBanking Network

Kellogg continues to support The Global FoodBanking Network, or GFN, a nonprofit founded in 2006 to create, supply and strengthen food banks and food bank networks throughout the world. Kellogg, which donated \$250,000 to the organization in 2009, was one of three founding partners, and our vice president for corporate social responsibility is a member of GFN's board of directors.

GFN works in 18 countries to support existing food banks and help create new food banks in communities where they are needed. In 2009, for example, GFN opened four food banks in South Africa—the first ones in that nation. Kellogg's Corporate Citizenship Fund supplied initial funding, and our Johannesburg office was instrumental in helping to launch the food banks, which have been inundated with requests for help since they opened.

## Food Banking in Mexico

In Mexico, food banking has grown from 10 food banks in 1995 to approximately 75 today. Kellogg has been instrumental in this growth, providing funds and products to the country's umbrella food banking organization—the nonprofit Asociación Mexicana de Bancos de Alimentos (AMBA). AMBA feeds about 1.2 million people a day, or nearly 10 percent of the estimated 15 million people in Mexico who don't have enough to eat.

A recent \$50,000 donation from Kellogg helped AMBA establish its first distribution center in the fall of 2009 to collect, process and coordinate food deliveries across its food banking network. "Our partnership with Kellogg helps to break the vicious cycle of poverty," said Luciana Aimar Reyes, AMBA's executive president. "Kellogg brings hope, enthusiasm and light to many, many people."

### Physical Fitness

Physical fitness is a cornerstone of good health, and we look for partnerships that will help people stay active—from swimming programs and competitions in the U.K., Ireland and Sweden to soccer programs in Mexico. Recent initiatives include the following:

- » *Youth Trains for Olympia.* Kellogg has been the official partner for Germany's Youth Trains for Olympia, the world's biggest sports competition, since 1987. In May 2009, the Federal Council of Germany honored Kellogg for more than 20 years of engagement and support.
- » *Active Healthy Kids Canada.* 2009 marked Kellogg Canada's fifth consecutive year as a sponsor of Active Healthy Kids Canada's Report Card on Physical Activity for Children and Youth. Designed to offer insight into how well the country provides physical activity opportunities for young people, the 2009

#### EXPANDING FOOD BANKS GLOBALLY

*"As one of GFN's founding partners, Kellogg Company has helped GFN alleviate hunger around the world by enhancing food bank systems where they exist and creating new food bank systems in countries where they are critically needed. Kellogg Company has provided tremendous support to GFN and our food bank networks. Kellogg is a model and an inspiration for how global food companies can pursue their goal of reducing hunger on a local, national and global scale."*

Bill Rudnick, GFN Chairman, Managing Partner DLA Piper





*Report Card also highlighted the important role physical fitness plays in facilitating learning and academic performance. And, it included key recommendations for parents, educators, community leaders, policy makers and health care providers.*

» *Swim Programs.* Kellogg's U.K. business has promoted and supported community-based swimming since 1996. The program is designed to remove barriers to participation to encourage swimming as part of a healthy lifestyle. Since 2006, 55,000 people have participated in Swim Active projects across the U.K. In 2009, we launched another three-year

*partnership with British Swimming to help thousands more make swimming a regular part of their lives. In Sweden, Kellogg is working with the Swedish Swimming Association to support a swimming competition for 4th grade students, to inspire them to exercise and eat right.*

» *Danish School Sports Foundation.* In 2009, we launched a week-long campaign in Denmark called "Set the School in Motion," encouraging schools to provide 60 minutes of physical activity for students during school hours. More than 100 schools across Denmark participated.

» *Jump for Joy.* In Ireland, we have supported the national children's hospital (Our Lady's Children's Hospital, Crumlin) through fundraising activities. Over the past 10 years, these activities have raised more than €2 million, which has been used to improve children's hospital stays through entertainment programs and to support the building of a new hospital wing for older, chronically ill children. In 2009, Kellogg donated €40,000 to support Jump for Joy.

- » *Kellogg 10K.* In Querétaro, Mexico, we sponsor the largest 10-kilometer competition in the region, with more than 2,000 runners. In 2009, a 5-kilometer competition was also introduced for adults and children.
- » *Fundación Rafa Márquez.* In Mexico, we support the Rafa Márquez Foundation, which promotes nutrition, sports and education. A popular soccer player on the Mexican national team who also plays for Barcelona, Márquez is a big inspiration to children. At the Foundation's three centers in the communities of Jalisco, Saltillo and Michoacan, children are given a meal, practice sports and participate in educational lessons. In 2009, Kellogg's Corporate Citizenship Fund also made an additional contribution of \$100,000 to construct a new center.

## Disaster Relief

Kellogg responds to natural disasters with product donations and cash contributions.

In the U.S., we responded to 2009 spring floods in eastern Kentucky, including the town of Pikeville, where we have a production facility that employs about 400 workers. Kellogg responded to the disaster with two semi-trailer truck loads of shelf-stable food and a donation to aid Red Cross relief activities.

Internationally, our efforts include the following:

- » In early 2010, we contributed \$250,000 to the American Red Cross to assist with earthquake relief efforts in Haiti.
- » In 2009, our Australian division donated 140,000 servings of cereal and snack bars in the aftermath of bushfires in Victoria that killed more than 200 people and left thousands homeless. An employee matching program raised monies to support Red Cross rebuilding efforts.
- » In 2008, we donated \$250,000 to the American Red Cross to assist with earthquake relief efforts in the Sichuan province of southwestern China.
- » Our India division contributed \$10,000 to the Taj Public Service Welfare Trust, a fund established for those affected by the terrorist attacks against Mumbai in November 2008.

## Community Development

Kellogg looks for ways we can support the communities in which we do business, and in which our employees and their families live. Some of our more recent initiatives include the following:

- » *New Orleans Playground.* Kellogg's Corporate Citizenship Fund contributed \$100,000 to build a new playground in the Lower Ninth Ward, an area of New Orleans that was devastated by Hurricane Katrina. Kellogg Park, which was dedicated in December 2008, was the first playground built since the disaster flooded much of the area. Kellogg partnered with the Make It Right Foundation, which is headed by the actor Brad Pitt. The playground was constructed using sustainable methods, including the use of nontoxic, recyclable materials and solar energy to power the electric components of the new equipment.







## United Way Awards

During some of the toughest economic times in U.S. history, Kellogg and its employees continued to give and volunteer in their communities.

In recognition of these efforts, United Way presented Kellogg with its highest national award in 2010: the Spirit of America® Award for our comprehensive commitment to strengthening communities. This marked the fifth consecutive year that the United Way has recognized Kellogg.

In 2009, the organization gave Kellogg three prestigious Summit Awards—for Corporate Philanthropy, Community Investment and Community Volunteerism. And in Ontario, Canada, the United Way of Quinte gave our Belleville Plant its annual Spirit Award in recognition of the plant's support for the charity.

## Farm Schools in South Africa

Kellogg has provided \$100,000 to Tshepo Ya Rona ("Our Hope"), which assists schools in disadvantaged South African communities through programs that focus on study skills, HIV/AIDS awareness, drug and alcohol abuse, pregnancy prevention and sex education.

- » *Helping Orphans.* Our European headquarters in Dublin donated €50,000 during 2008 and 2009 to support an Irish-based charity that assists orphans in Russia. Employees also raised money to contribute to the program.
- » *Frosted Flakes® Fields Makeover.* In January 2009, we launched an initiative to renovate dozens of playing fields across the U.S. to provide children with better places to play. We solicited nominations from parents to consider their kids' fields. We received thousands of nominations and ultimately selected 30 winning fields through an online voting contest. Millions of votes were cast, helping to raise awareness of the need for field renovation even in communities that were not selected. An additional 25 fields will be renovated through collaborations between Frosted

Flakes® and select retailers around the country. Winning communities included fields in Bellevue, Ky.; Stratford, Conn.; Hayden, Ala.; Winslow, Ariz.; Waterloo, Iowa; Cave Junction, Ore.; and Bridgeville, Calif.

- » *Community Gardens.* Demand for community gardens in the U.S. is at an all-time high. In urban areas, community gardens are helping families learn the importance of healthy eating by cultivating fresh produce themselves. In 2009, Gardenburger® solicited applications for grants to support community gardens. Fourteen community gardens were selected out of more than 270 applications. Among the winners: the United Teen Equality Center in Lowell, Mass., which requested \$10,000 to help train youth volunteers to run a three-quarter-acre farm and sell their harvest at the local farmers' market; and Common Threads





*Farm, which asked for \$8,850 to develop and maintain a garden on the grounds of the Lummi National School, located on the Lummi Indian Reservation on Lummi Island, Wash.*

» *United Way. One of our largest companywide efforts in the U.S. focuses on United Way, which we have supported for years through corporate contributions and dollar-for-dollar matches of employee and retiree pledges. In 2009, \$5.9 million was pledged to benefit 28 communities; this includes employee and retiree pledges, as well as a company dollar-for-dollar match. Each year, we support United Way Days of Caring, encouraging and arranging volunteer opportunities for our employees. In 2009, more than 2,000 employees participated in service projects in their communities. We also featured United Way on millions of packages of Special K® products.*

## Twenty-Five Year Fund

In 1944, W.K. Kellogg created the Kellogg Company Twenty-Five Year Employees' Fund to aid employees who had worked for our company for a quarter century yet struggled later in life to meet their financial obligations. Each year, the fund assists more than 150 impoverished former employees or surviving spouses around the world, providing money for home repairs, medical care and other basic necessities. Our founder recognized that financial difficulties can happen to anyone, and he set up the fund to offer a lifeline in times of need. Many of the recipients retired from Kellogg decades ago. With an average age of 81, the recipients have simply outlived their assets, and their pensions have not kept pace with inflation.

*In India, Kellogg employees contributed about \$7,700 to a United Way of Mumbai program that provides midday meals to underprivileged children. Through that contribution, we were able to provide about 550 children with 200 meals in one year.*

*In Canada, the company and plant employees contributed \$120,000 to the United Way of London and Middlesex and \$25,000 to the United Way of Quinte in 2009, bringing our total contributions to date to over \$2 million.*

### Diversity Programs

Kellogg funds a range of external programs to provide opportunities for individuals of diverse backgrounds, including the following:

- » *NAACP Law Fellows Program. Since 2003, Kellogg has been a committed supporter and primary funding source for the Law Fellows Program of the National Association for the Advancement of Colored People (NAACP). In 2009, we contributed \$100,000 to the program in honor of the organization's 100th anniversary.*
- » *Scholarships. We support a variety of scholarships that include diversity as a criterion. In*





*2009, we contributed approximately \$250,000 to programs sponsored by groups such as: Historically Black Colleges and Universities; 100 Black Men of America; American Association of People with Disabilities; Hispanic College Fund; National Black MBA Association; National Society of Hispanic MBAs; National Society of Black Engineers; and the National Business and Disability Council.*

For a discussion of Kellogg's employee diversity and inclusion initiatives, please see the

Workplace section. Supplier diversity initiatives are discussed in the Marketplace section.

### Challenges

*As a company with a global reach, we want to make sure we have the right impacts in the diverse areas in which we do business. One challenge is finding the programs that resonate within a particular region of operation. We recognize that a charitable program that works well in the U.S. might not have the same impact in Asia, for example.*

Key performance indicators are an important measure of any company's social responsibility efforts. However, it is often challenging to establish meaningful quantitative metrics in the area of our community work. We are committed to making sure that the dollars and products we contribute are having a positive impact, and we will continue to explore and refine ways to evaluate our effectiveness.



## Where We Are Going

We will continue to concentrate on the programs that best align with our business focus—namely, nutrition, fitness and health. In the coming years, we will be working to ensure that each of our core markets has resources in place to effectively make and manage charitable contributions.

We are also striving toward strategic and enduring partnerships that continue over time. We've learned that when we unite our efforts, our results are greater. This also ties to our goal of making fewer, but more significant, contributions. At the same time, we will continue to evaluate how to best measure the impact of our programs on society.

We recognize the business value of being a partner in social improvements and we know that strong community investments can help

differentiate Kellogg and our brands. Social responsibility has been a critical part of who we are for more than 100 years; we expect it to be a critical part of our future for many generations to come.





Kellogg used the 2006 G3 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) at a GRI-checked B level. This index covers all core indicators and those additional GRI indicators (shown in italics) on which we have fully or partially reported. Please visit [www.globalreporting.org](http://www.globalreporting.org) for the full text of the indicators and other information on the Guidelines.

Key to Indicators: **Reported** **Partially Reported** **Not Covered**

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